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**Faculty of graduate studies**

**The role of Islamic banks in developing the Small and  
Medium enterprises in Palestine.**

**by**

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The thesis was submitted in partial fulfillment of the  
requirements for the master's degree in Quality  
Management

**September, 2018**

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**Declaration**

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## **Dedication**

I wish to dedicate this thesis with an endless gratitude and eternal appreciation to the  
memory of my beloved parents “may God rest their souls”

To my beloved wife (Rudainah) and our children (Ahmad, Abed alrahman, Saba and  
Hala)

To my beloved brothers and sister

I dedicate this study

The researcher

Taha Abu Sarieh

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**Taha Abu sarieh**

## **Abstract**

This study aimed to highlight the role of Islamic banks in developing small and medium enterprises in Palestine through analyzing the nature and methods and procedures applied in Islamic banks to finance these projects, with a focus on the effectiveness of various forms of Islamic finance and the extent of use by Islamic banks in Palestine for the purpose of granting finance for small and medium enterprises, It also aimed to identify the most important financial needs of these projects and the difficulties and obstacles faced by these projects in raising funds for its various operations and activities. For this purpose, this study used the analytical descriptive approach to achieve research objectives. Moreover, the survey questionnaire was distributed to 74 owners of small and medium enterprises in Palestine. Whereas 50 forms in the West Bank and 24 in the Gaza Strip. All these forms were retrieved and used for analytical purposes.

As a result, this study revealed that there is a strong positive relationship between the procedures for granting and implementing Islamic finance and the development of small and medium enterprises in Palestine. This indicates that the method of Murabaha in financing these projects as it is the least risky form of financing, and the study found a set of constraints that limit the development and growth of these projects in Palestine, where the most important obstacles represented in the political and economic instability. in addition to the problems of obtaining funding from banks that require a high volume of guarantees that don't commensurate with the ability of these projects.

This thesis found that the development of SME depends on the sources of funds used in the project itself. The finance used is important in growth of SME in Palestine.

The study recommended that it is necessary that Islamic banks expand their work to focus on other important forms to these projects as Mudaraba and musharka. As the study also recommended that it is crucial to provide qualified areas within the municipalities boundaries for the work of these projects as well as providing the logistics facilities and organizing the work of this sector within these areas.

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## List of abbreviations

PMA: Palestinian Monetary Authority  
 IB: Islamic Banks  
 IBF: Islamic Banking Financing  
 SEP: small enterprises in Palestine  
 PCBS: Palestinian Central Bureau of Statistics  
 SMEs: Small and Medium Enterprises

## **Chapter 1: Introduction**

### **1.1 Introduction**

Palestinian banking sector is playing critical role in the national economy through providing the necessary fund to the companies and projects, which contributes to creating an effective economic movement despite the difficulties that the banking system experiences and then influence its development ( Hellis, Alhabeel, 2014)

The Islamic banks are considered the pillar of the non-usury system which the Muslim community needs as a base to develop the community. Wherein the Islamic banks became a fact in both the Islamic nation and the worldwide. So they are considered as banking institutions with Islamic nature, that commit to the moral values that divine laws brought, achieving development, pursuing to correct the function of capital, rationalize the use of money, training individuals on rationalizing spending and encouraging them to make savings. Moreover, it is considered as solidarity among members of society by asking them to meet the legitimate duties such as charity. (Alshaikh Eid, Hejazi, 2016)

On the other hand, SMEs are the most important categories that can truly benefit from the services of Islamic banks, as they correspond to the foundation and objectives on which these banks depend on, that they depend on a variety of Islamic Models of financing that consider the risks that arise from investments in small and medium enterprises in addition to its direct focus on funding the vital development sectors in various countries. SMEs are important for successful development experiences in the civilized world. Wherein the Japanese experience is the big of the importance of these enterprises in the development process.

In Palestine, small and medium enterprises are considered the main pillar of the economic system. as 95% of the existing projects are classified as small and medium enterprises. Hence, this sector is very important in leading the development process in Palestine (Palestinian business forum ,2014). One of the most important difficulties faced by small and medium enterprises in Palestine is the lack of funding and the difficulty of obtaining fund, especially in the current circumstances in the Palestinian territories. This is due to the economic and political instability, which drives financial institutions to raise the ceilings of guarantees to grant funding, which is a major obstacle that deprives those projects of the opportunities for growth and development. According to the effective role of these projects, the development process can only be achieved by providing enough funding for these projects in order to achieve thier role effectively. The financial institutions have to increase the guarantees procedures to grant finance. Hence, the SMEs face a difficulty in the development and growth.

Considering the composition of the Palestinian banking system, it relies mainly on banks, both commercial and Islamic, to grant this funding. The commercial banks rely on the interests and high guarantees to grant financing to small and medium enterprises, which make the owners of these projects looking for other options based on the idea of participation or speculation in various investments, As these formulations are considered the basis of Islamic banking work, which is an umbrella that enables the owners of these projects to obtain funding by ensuring participation without the need for complex research on the guarantees required by commercial banks, and the prevailing culture in the Palestinian territories tends to the Islamic character. Therefore, this factor is a key motivation to seek for funding from Islamic sources in the Palestinian territories, and to

find out the role of Islamic banks in stimulating growth rates of small and medium enterprises in Palestine. Thus, this study aims to provide a real and realistic assessment of this role and the extent to which it meets the needs and requirements of the owners of these projects and the expected prospects in the development of Islamic banking in Palestine.

## **1.2 Research Problem**

Small and medium enterprises are considered one of the Pillars of the national economy as well as in Palestine economy as 95% of the operating projects in Palestine are SMEs. These enterprises experience a variety of difficulties and challenges, whether those related to the external environment or the internal environment. The results of the Palestinian Business Forum 2014 concluded that the most important problem which enterprises face is the weakness of support and funding whether from by banks, civil society institutions or from the official Palestinian authorities, in term of these challenge the owners hope they have funding opportunities that meet their investment needs. Whereas the commercial banks focus on funding the short term investments that achieve high rates of interests with specific guarantees. As Islamic banks tend to diversify their banking services in ways that share risks and profits, which intersects with the general need of these enterprises when starting investment in small and medium enterprises. Hence the main research problem is reflected in a main question” what is the role of Islamic banks in developing the Small and Medium enterprises in Palestine?

To answer the research problem, following sub questions raised.

### **1.3 Research Questions**

- 1.** What are the development aspects of the contributions made by Islamic banks to SMEs in Palestine?
- 2.** What are the funding needs of small and medium enterprises in Palestine?
- 3.** What are the obstacles to the development of small and medium enterprises in Palestine?
- 4.** Is there a relationship between the applied methods and procedures in the Islamic banks in Palestine on the development of small and medium enterprises?

### **1.4 The research objectives.**

**This point attends to achieve the following objectives:**

1. to shed the lights on the importance of Islamic finance in creating sustainable development, especially for small and medium enterprises.
2. Identifying the developmental requirements of small and medium enterprises in Palestine.
3. Determining the relationship between the applied methods and procedures in the Islamic banks and the development of small and medium enterprises in Palestine.
4. Identifying the nature of developmental contributions to Islamic finance for the SMEs in Palestine.
5. Determining the obstacles and challenges that face the growth and development of small and medium enterprises in Palestine.

### **1.5 Research Importance**

**This study tries to diagnose the role of Islamic banks in the development of small and medium enterprises in Palestine for some considerations that include:**

1. This study is considered one of the primary studies that identifies the role of Islamic financing and the development of small and medium enterprises in Palestine. This study conducts a specialized analysis of the detailed internal aspects related to the aspects of development contributed by the Islamic banks, both in terms of productive profitability or in terms of their reflection on the quality of products and other detailed aspects.
2. Avoiding the lack of previous researches that have linked the Islamic finance to the general development indicators of small and medium enterprises, which depended on the published financial reports in measuring these aspects according to the issued time series from the central banks and ministries that are specialized in SMEs, so these studies reflected general developmental indicators about the number of employees and facilities which were a measure for the development of these enterprises. The current study explained the detailed developmental aspects of the project whether concerning the productivity, cost, quality or other indicators that are considered as a real reflection of the internal development aspects of these enterprises.
3. Provide a reference in the Arab Library about the role of Islamic banks in developing the small and medium enterprises in Palestine.
4. The scientific importance of this study stems from being a reference for researchers, and decision-makers. This study provides a precise diagnosis of the reality and



nature of funding practices applied within Islamic banks and their role in the development of small and medium enterprises in Palestine. This will lead to orienting the decision makers in the official and special bodies to reformulate its trends and work mechanisms with small and medium sector.

#### **1.10 Operational Definition.**

- 1. The Islamic banks:** a financial institution that works to attract the cash resources from the society members and employ them effectively to maximize its growth within the framework of the stable rules of Islamic laws and serves the people of the nation to develop their economies.
- 2. The small enterprises in Palestine:** identifying the small enterprises depends on the number of employees, where the Palestinian Central Bureau of Statistics identifies the small project: the project that employs from 1 to 4 employees.
- 3. The medium enterprises:** the project is considered medium-sized if it employs from 5 to 20 employees according to the Palestinian Central Bureau of Statistics classification.

## **Chapter 2: Theoretical framework and Literature Review**

### **2.1 The Islamic banks**

#### **2.1.1 Definition**

It is not easy to put a concept to the bank, it is considered a credit institution whatever its type. The laws that organize the banks did not come with this identification but focused on the processes that turn the institution into a bank. the developed definitions by Islamic jurisprudence all revolve around the work done by the banks (Malaki, 2000, p. 25) So there have been many definitions that dealt with the concept of Islamic banks, Which focused on studying the Islamic banks from different aspects, but all agreed that these banks are financial institutions operating on the basis of Islamic law, the diversity of the definitions that dealt with the concepts of Islamic banks is due to different aspects. As some scientists identified it based on its legitimate function in terms of non-dealing with usury, as defined by others based on its financial investment function, Despite the difference in the definitions of Islamic banks, all agreed on the main objective of the existence of Islamic banks which is the legitimate handling of financial issues governed by religious teachings based on the Islamic Sharia with its various contents, So the International Federation of Islamic Banks has defined them as institutions whose establishment law and regulations are explicitly committed to the principles of Islamic law, and non-dealing with usury ( Tmam, 2015, p3)

some defined the Islamic banks as those institutions that attract the capital that is idle to grant the owner a legitimate profit through the economic development works that benefit the shareholders as a mediator between the owner of the money and an investor to get all

the right to develop this money (Ikhder, 2007, p. 167) The Islamic Bank has been identified as an a financial, banking, economic and social organization that seeks to attract resources from individuals and institutions and uses it efficiently, doing banking services, achieving the returns for capitalists. As well as contributing to achieving the social solidarity in the community while it is committed to the Islamic laws and principles in order to achieve the economic and social development to the individuals and institutions taking in consideration the community circumstances (Nasser, Busharma, 2010, P306)

At the Palestinian level, the Palestinian banking law number 2 in 2002 identified the Islamic bank as any public shareholding company that aims at gathering savings from natural or legal people in order to use it in funding and investment for the interest of individuals and public according to the rules of Islamic law. (Matloub, 2012, P293)

It can be said that Islamic banks are those banks that carry out banking activities by traditional banks but without dealing with the interest rate and its consideration to the Islamic laws, with the aim of achieving economic and social development in society. Whereas the theoretical rules that differentiate the Islamic banks are the various functions without resorting to the system of benefits. كيف؟؟

### **2.1.2 Characteristics of Islamic Banks**

The work of Islamic banks is different from other traditional banks depending on the Islamic law in the financial transactions. Traditional banks rely on the nature of their work mainly on the idea of obtaining an interest in return for financing. However, Islamic banks consider this method to be contrary to the teachings of Islamic law and usury. therefore,

these banks have a set of characteristics that constitute the difference between them and traditional banks:

**First: the Islamic banks apply the principles of Islamic laws:** In their various financial transactions, these principles are the basis of the Islamic banks' concepts (Al-Aliyat, 2006, p16).

**Second: non-dealing with usury:** or interests, the Islamic bank doesn't deal with interests, so it doesn't mean that Islamic banks can't get competitive profits. Whereas the Islamic banks try to maximize its profits through direct investment in various projects in order to maximize the profits of the bank and the owners( Tashtoush, 2015, P6).

**Third: Participatory investment:** The Islamic Bank plays the role of employer or speculator through the use of available funds for the purposes of achieving economic and social development and the distribution of the revenues to all parties (Mushtaha, 2011, p.19)

**Fourth: social status:** One of the most important pillars of the Islamic banks, which distinguish them from others is the establishment of a fund for charity and managing it. the social character makes it responsible for achieving psychological and social gains when they study the feasibility of projects that need to implement or finance (Sheikh Eid and Hijazi, 2016, p 5)

**Fifth: Profit is the main objective of Islamic banks, but not the only objective**

That pursue to achieve but they seek to enhance the investment in various legal aspects. In addition, the Islamic Bank seeks to gather savings through depending on the idea of

fighting the forbidden compactness and using savings in the investment that enhance the economic and social development, so the Islamic bank is not a relief institution but it is an investment institution that seeks to savings, by all means, to provide assistance to the economic sectors that seek to invest in accordance to the provisions of the Islamic law (Mushtaha, 2011, p.19)

**Sixth: Avoid the accumulation of cash:** Islamic law prohibits the sale of debts without their nominal value, regardless of their due date, because any difference between the nominal value and the present value sold is regarded as prohibited usury, because it is meant that the sale of debt is the process of conversion or endorsement of a third person and the cancellation of debt or part of it between a creditor and debtor. Whereas the Holy Quran encouraged charity, where traditional banks sell debt for interest, this what makes provided direct fund unrealized. As it depends on pure funding layers of monetary assets accumulated on a small base of the real market, which is one of the most important causes of turmoil in the Western economy, which is known as Maurice Abebeh, which Islamic banks don't fall in (Karima and Hafizah, 2015, p. 15)

**Seventh: Diversity:** the Islamic banks are characterized by the variety of financing methods adopted by them, and this multiplicity in formulas commensurate with the multiplicity of economic activities, whereas each activity of these activities corresponds to a formula or a specific number of financing formulas in these banks (Harban, 2015, p. 48) .

**Eighth:** The subordination of Islamic banks to Islamic law supervision - In addition to the financial, administrative and banking controls: Sharia supervision in the Islamic banks goes beyond the idea of issuing advisory opinions concerning financial transactions to

follow up the implementation of advisory opinions. This advantage is unique to Islamic banks from usury-based banks, this is the fundamental difference between Islamic banks and usury-based banks. And without this control, Islamic banks become like other usury-based banks in the world and will not be unique (Al-'Aliat, 2006, p. 16).

**Ninth: In terms of relationship:** The relationship of Islamic banks with depositors is not based on the creditor and the debtor, but is based on the processes of participation and trading. As the financial Act of honor in traditional banks based on debt and allow the transfer of risks, while the Islamic Act of honor is based on the assets and Sharing the risks (Al-Quraishi, Abdul Karim, 2012, p. 47)

## **2.2 Islamic Modes of Financing:**

The Islamic banks are characterized by the diversity of funding formulas, which meets the various sectors needs in all economic aspects. Thus, the following financings are used by the Islamic banks.

First: Mudaraba (capital finance and sharing profits) Where the idea of Mudaraba is based on the provision of money by the bank as the owner of it. While the client manages the project to share profits resulting from this project at an agreed upon rates between the bank and investor, who is the Mudareb. In this case, profits should be identified by each part of the contract in advance. This is the fundamental difference between the lending and Mudaraba, whereas the usury-based bank determines a specific rate of profits depending on the volume of money and the repayment period. While the Mudaraba determines the agreed upon rate of profits, the capital provided by the bank bears the loss while the investor losses this effort (Al-'Aliat, 2006, p20). Therefore, the absolute Mudaraba provides the

opportunity for employers to do their bests and dedicate skills in order to achieve creativeness in production and innovating new methods to maximize the revenues of their projects. Whereas, the managers of the projects will do their bests to make the project successful because they share profits. This formula guarantees an innovated mechanism to specialize the resources on the base of the efficiency, skills, and honestly not on the financial fitness ( Alasraj, 2011, P6)

### **2.2.1 Musharaka.**

It is a partnership between the bank and the client whereby profits are shared on a pre-agreed upon basis, but the losses are divided according to shareholding percentages. This partnership may be managed by the bank or the client or both or by a third party. The Bank and the client shall share an equal or different share in order to establish a new project or adopt an existing project, each of them shall be the owner of the capital and deserves profits. The loss also is divided according to the amount of each share in the capital. (Alasraj, 2011, P12)

### **This formula fits the small enterprises. (Alasraj, 2011, P7)**

- 1- The flexibility of sharing is reflected in the possibility of financing any project, whether It is small or medium, especially participation that ends with ownership where the partner was able to own the project after the exit of the Islamic bank. Whereas The Bank and the client shall share an equal or different share in order to establish a new project or adopt an existing project, each of them shall be the owner of the capital and deserves profits. The loss also is divided according to the amount of each share in the capital.

- 2- The small enterprises can benefit from the bank name during marketing its products.
- 3- The owner finance share will make him care about the project success.
- 4- The banks' profits will increase as well as the growth of enterprise activities.
- 5- It contributes directly to the economic development and increasing the added value of the national income.

### **2.2.2 Murabaha**

Murabaha is one of the most widely used forms of Islamic finance because of its ease of application and low risk. Murabaha is one of the forms of the sale of fund in trust, whereby the seller and the buyer agree on the price of the commodity, taking into consideration the original price. It represents a contract between the seller and the buyer that must contain the terms of the contract represented in acceptance and eligibility of the parties and the contract must be clear and informed and free of ignorance, This contract includes the price of the original commodity in addition to determining a known profit for the seller, Where the bank buys the commodity based on the buyer order and sells it to the customer at a higher price than the original price. This price includes the profit margin of the bank against the long-term sale of the customer. Therefore, the profit margin represents the interest rate paid in the usury-based banks. Where the Islamic bank replaces it by the difference between the selling and buying price ( Nassar, 2016, P40-45)

The study argues that Murabaha objectives would be useful in the development of small and medium enterprises, Islamic banks should pay attention to finance the purchase of production units (production lines) or purchase the raw materials and operational requirements, which are used in manufacturing the products, and thus activate the use of



the Murabaha formula in supporting the activities of small and medium enterprises using to provide production requirements as well as selling the products of those enterprises to individuals and institutions, not limiting the Murabaha applications in funding for personal use purposes that do not contribute effectively to the economic development.

**2.2.3 Istisna'a:** it is a contract of purchase between the bank and the customer where the customer determines the goods specifications, and after the manufacturing of goods or shipping, the bank sells these goods to the customer under a prior agreement, and It is a form of sales through which the industrial institution or the enterprise (the seller) can sell and market part of its goods and services that it contracted to supply to its customers, and in return the purchasing institution can guarantee access to industrial goods or productive units (Raqani, khmqanie, 2013, p. 47).

**Small enterprises can benefit from this formula through (Al-Asraj, 2011, p. 12)**

1. Contribute to the establishment of new units such as establishing new production lines or setting up residential buildings. this formula is suited to the existing small enterprises that want to expand their business by increasing existing production lines or establishing real estate units for expansion units and other small enterprise expansion methods. (Small project) can be agreed with the bank (a specialist company in Istisna'a finance for small projects) to manufacture what the client (the small project) wants from production units or real estate (through manufacturers) and then repay the money with the profit.
2. Financing small projects according to a specific program through which specific goods with certain specifications can be identified and commissioning the owners of these

projects to produce and deliver these goods to a specialized body to be marketed. In this way, small business owners can be financed and their business becomes more developed according to a specific program to produce goods needed by the market or needed by some medium and large enterprises. If finance is done in this way, it can be used to identify product types, supervise their specifications accurately and directly contribute to their marketing. Thus, the small business owners dispose of most of the financing, regulatory, cultural and marketing problems without exposure to debt risks and its benefits as well as legal and economic problems.

#### **2.2.4 leasing leads to Ownership .**

It is a contract whereby the bank rents equipment to the customer with an agreed fee. At the end of the lease, the customer purchases the equipment at an agreed price with the bank, and the paid wage is part of the price. then the owner of the leased equipment retains certain risks and returns which are associated with the leased property. The lease is an updated form of financing in the light of the lease contract, Within the framework of financing formula that allows the facilitator to acquire a capital asset but does not have the total price immediately, the owner or buyer of capital assets such as machinery, production equipment, real estate, etc. usually bears financial risks and risks of buying and owning. He is a trader in these assets by buying, selling or renting them. The finance lease is the alternative optimized for companies that have lost their ability to borrow traditional short-term conventional commercial banks that need fixed assets to expand their productive capacity (Abdurrahman, 2010, p. 325). It is a not recent business activity and not just a financing method for capital asset applicants, the owner or the buyer of capital assets such

as machinery, equipment, real estate, etc. usually carries financial risks and risks of buying and owning. He is a trader of these assets. The finance lease is the ideal alternative for companies that have lost their ability to borrow traditional short finance from the traditional commercial banks. It requires fixed assets to expand their productive capacity (Abdel Rahman, 2010, p. 325). The study believes that this formula is suitable for many small and medium enterprises that seek to expand their production capacity and a specific funding to invest in the fixed assets which are needed by a large proportion of enterprises operating in the Palestinian territories. As these enterprises want to improve their production capacity and need specific funding within its ability to repay and in the form of leasing. This financing can be used to cover the needs to specific machines or a specific production line to be paid in comfortable periods and ultimately the investor owns the machine that he needs after discounting the payments of renting from the total cost. This financing formula suits the promise to own of the small production facilities that need production lines such as printing presses, packaging factories, as well as the facilities that need equipment such as medical laboratories.

#### **2.2.5 Bai Salam**

A purchase contract in which the price is paid in advance by the bank and the goods are delivered later by the client to a specific person and in a specific date. The term of Bai Salam is an alternative form of financing for interest-bearing loans through the debtor's interest rate system, and providing monetary liquidity to the clients, in return for the purchase of their products and paying their value immediately then the order will be delivered in a specific date. The bank can grant such financing to its customers who

participate in local financing operations such as speculation and sharing to provide certain facilities to them (Al-Quraishi and Abdul Karim, 2012,p 48)

The researcher believes that the Islamic bank can grant fund to the small and medium facilities in form of Bai Salam through Islamic bank purchasing the products of these facilities through cash payment and delayed receive of these products after manufacturing. As the bank can make contracts with the users of these products from the big facilities that consider the products of small and medium facilities are inputs of components of its final products through selling these products to the big companies through Bai Salam or the Islamic banks agreement with its clients to sell these products in form of Murabaha, this way guarantees the availability of liquidity which is necessary to the small and medium facilities and at the same time achieving profit margin for the bank and its dealers.

This formula can be used to finance small productive enterprises that need to working capital finance (raw materials, salaries, running expenses) whether they produce a final product (final use) or intermediate products used as components for other products as well as in financing the agricultural projects.

#### **2.2.6 Muzara'a**

It is a contract of agricultural investment in which the most important factors of agricultural production are the elements of land and labor, and the means of production, seeds, and fertilizers, so that the owner provides land, seeds, and means of production. Then The farmer starts agricultural work, while the production must be at a certain percentage for each of them. According to the Sharecropping, the investor provides the land while the

bank grants fund to provide agricultural needs by dividing the production or profits with certain rates agreed upon( Harban,2015.p51)

### **2.2.7 An interest-free loan**

This form of funding is considered as a finance provided to purely charitable activities. The borrower is obliged to repay the borrowed amount at a specified date. The bank can grant such loans to needy customers who participate in various financing operations such as speculation and sharing to provide certain facilitations to them (Al-Quraishi and Abdul Karim, 2012, p. 49).

## **2.3 The Reality of Islamic Banks in Palestine**

The experience of Islamic banking in Palestine is relatively new in comparison with Arab and Islamic countries. With the coming of the Palestinian National Authority in 1994, the banks began to practice their activities in the Palestinian territories through the reopening of branches that had been closed in 1967. Thus, the idea of banking began to appear in the Palestinian territories after the establishment of the Palestinian Monetary Authority in 1995, The start of the Islamic banking branch shaped in the opening of granting the license to the Cairo Amman Bank - Islamic Transactions Branch in 1995 through the opening of this branch for Islamic transactions in the Gaza Strip, Nablus, Ramallah, and Hebron. Hence, growth in Islamic banking continued through the granting of a number of licenses to Islamic banks to operate in the Palestinian territories, represented in the Arab Islamic Bank, the Palestinian Islamic Bank and Al-Aqsa Bank, which was closed in 2016 And was bought by the Islamic Bank of Palestine at the time of voluntary liquidation by its owners. The Bank was also acquired by the Islamic Bank of Palestine in 2005, so that the Islamic

banking business in Palestine are three banks. The Islamic Bank of Palestine and the Arab Islamic Bank, and Al Aqsa bank in 2017. Thus, the analysis of the reality of Islamic banking is concentrated in tracking the evolution of performance and banking operations of these banks in Palestine (Mushtaha, 2011, p. 52).

### **2.3.2 The Evolution of the performance of Islamic banking in Palestine.**

The development of the performance of Islamic banks that operate in the Palestinian territories is mainly based on the monitoring of growth values and indicators of the main indicators of these banks. The volume of investment assets consists of assets and direct financing provided by banks to various sectors, In addition to the volume of customer deposits and net profits of those banks, wherein these are the most important indicators that follow up the growth of Islamic banking in Palestine, By tracking the movement of these indicators, the general trend of the work of Islamic banks in Palestine takes a positive direction towards the increasing growth in its various operations, as reflected by the overall indicators, which are shown in the following table (1):

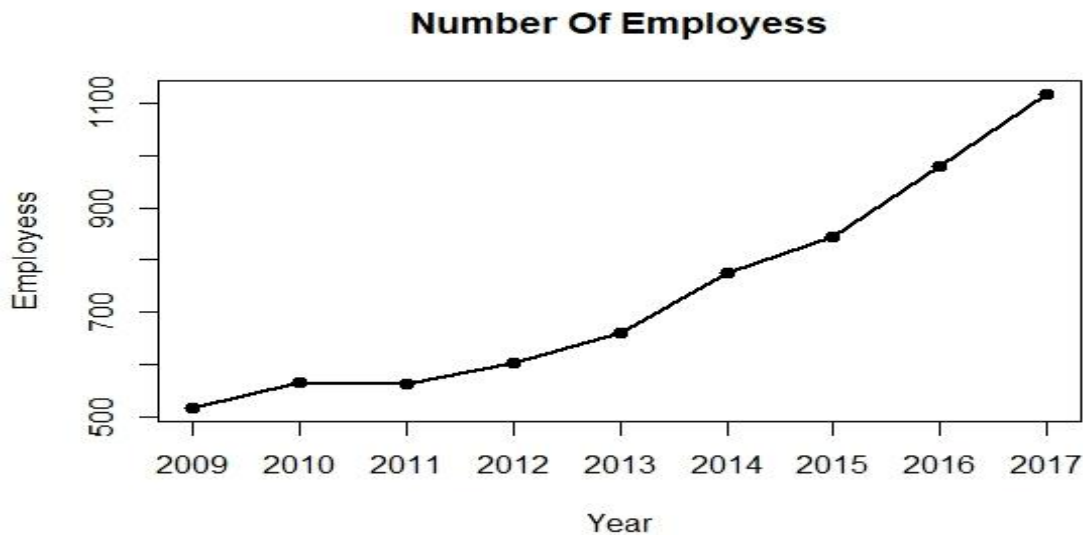
**Table (1): Key Performance Indicators of Islamic Banks (USD)**

<b>Year</b>	<b>Employees number</b>	<b>Total assets</b>	<b>Clients deposits</b>	<b>Direct finance</b>	<b>Net profit</b>
<b>2009</b>	516	593134104	482512687	180889518	1370738
<b>2010</b>	566	643481026	533656690	249061933	(705547)
<b>2011</b>	563	693675894	583336786	320389712	4934147
<b>2012</b>	603	780109279	661745977	381428454	6425988
<b>2013</b>	661	972251830	773561461	459801784	10026862
<b>2014</b>	774	1157259913	890926491	599461215	11637607
<b>2015</b>	843	1326211338	1056786499	757357550	15233817
<b>2016</b>	979	1603082569	1275702780	969950891	18803598
<b>2017</b>	1118	2051369417	1600630033	1180378328	20931138

*Source: prepared by the researcher depending on the annual reports issued by Palestine Islamic Bank and the Arab Islamic Bank (2009-2017)*

### 2.3.2.1 The Evolution of employing in Islamic banks

The published data in the annual reports issued by Islamic banks that operate in Palestine indicates that there has been an expansionary trend in employing size in these banks in recent years. The employing rates in these banks have been doubled during the year 2017 compared to 2009, To reach to growth rates in employing size in the Islamic banking sector by 116.6% as shown in figure (1):



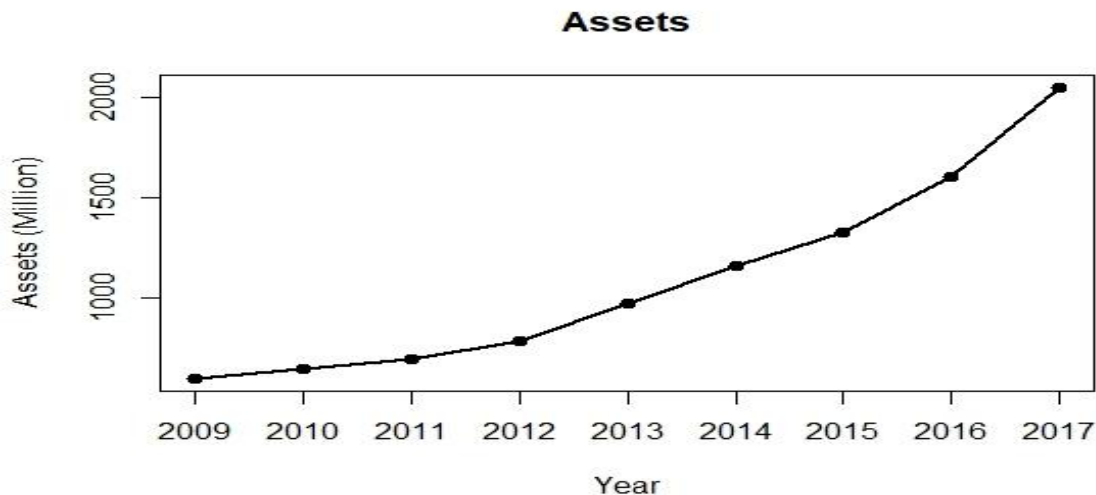
*Figure (1): The Evolution of employing in Islamic banks*

The expansion of employing size in the Islamic banks that operate in the Palestinian territories is a direct result of the general expansion of its business and its focus on the deployment strategy through the expansion of branches and offices in various geographic regions based on a real translation of the Islamic banking strategy based on an attempt to maximize market share in comparison with the Palestinian banking sector. The Islamic

banking sector has acquired a market share in the field of direct financing which is estimated at 11.2% in 2016 compared to 7.7% in 2012, in addition to its market share of customer deposits which reached 12% in 2016 compared to the share rate Market at 8.8% during the year 2012. adopting the expansion of branches strategy has contributed to stimulating growth in the Islamic banking sector. The number of offices and branches of the Islamic banking sector doubled in 2017 to 54 compared to 24 offices and branches during 2009, with an expansion rate of 125%.

### **2.3.2.2 The development of investment by the Islamic banking sector.**

Regarding the evolution of the banking assets of the Islamic banking sector in Palestine, It notes an upward trend in the value of assets, with assets growth rate of 245.8% during 2017 compared to 2009, which indicates to doubling the volume of banking investments in the assets within the Islamic banking sector, Figure (2) shows this.



***Figure (2): The development of investment in the Islamic banking sector***

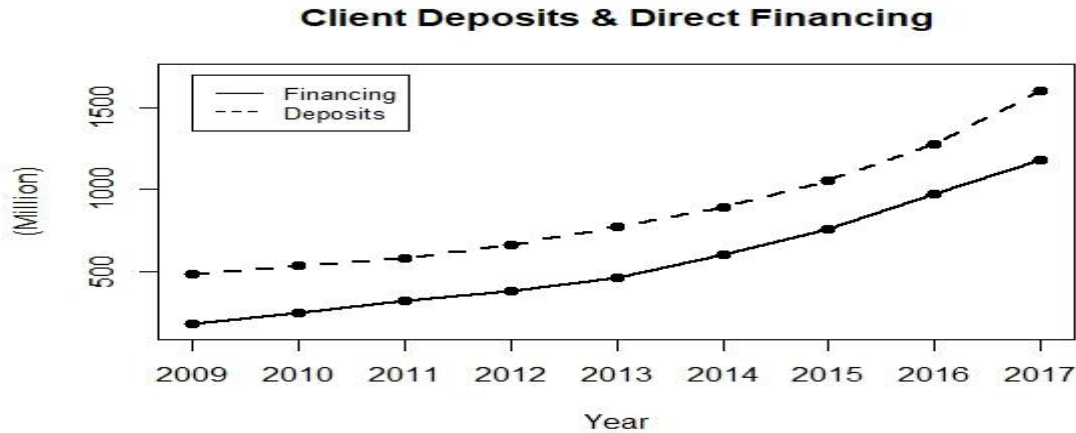


The growth of the volume of assets within the Islamic banking sector is due to the acquisition by some banks represented by the acquisition of Cairo Amman Bank Islamic (Transactions Branches) and AL- Aqsa Bank by Palestine Islamic Bank in 2005 on one hand, as well as the spread of branches and offices of Islamic banks on the other hand, As a direct result of the strategy of these banks to develop their market share, both in terms of customer deposits and direct financing, which were characterized by growth rates from 8.8% in 2012 to 12% in 2016 on the level of customer deposits and growth rate of direct financing from 7.7% in 2012 to 11.2% during the year 2016, which requires a growth in the size of bank assets to match the rates of growth and expansion, both at the level of proliferation or market share. As a direct result of the strategy of these banks to develop their market share, both in terms of customer deposits and direct financing, which reflected growth rates from 8.8% in 2012 to 12% in 2017 at the level of customer deposits and growth rate of direct financing from 7.7% in 2012 to 11.2% during 2016, which requires a growth in the size of bank assets to match the rates of growth and expansion, both at the level of proliferation or market share.

### **2.3.2.3 The Evolution of deposits and direct financing**

Customer deposits are the main focus of banks' operations in general, as banks seek to gather savings from the clients as the main operating theater of various banking operations, As banks are based on providing funds to borrowers both at the level of individuals or projects, which are reflected in the operations of granting direct funding they need, Where statistics of the work of Islamic banks indicate to the positive development of deposits and

direct financing associated with the banking operations, which is illustrated in the following form, Figure (3) shows this



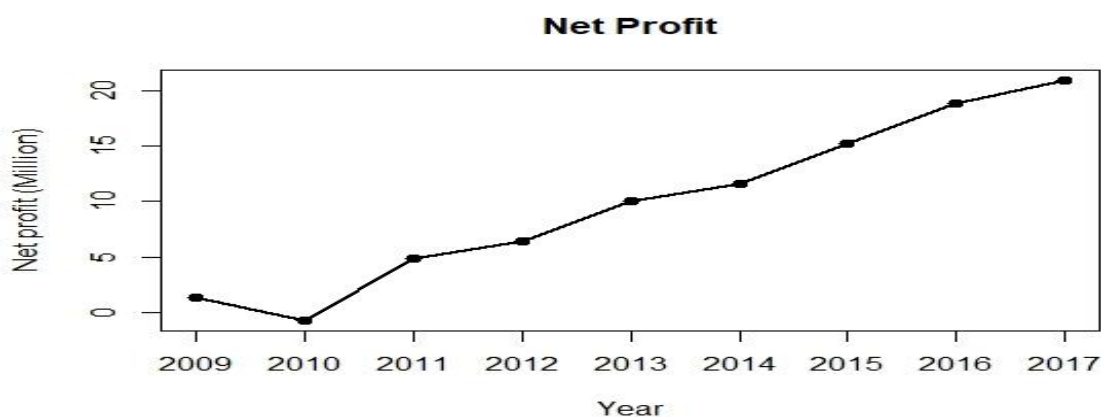
***Figure (3): The Evolution of deposits and direct financing***

Through the analysis of deposit and direct financing indicators it is clear that Islamic banks have relatively succeeded in attracting and developing customer deposits. These banks achieved a growth of 231.7% in total customer deposits during 2017 compared to 2009. The value of bank deposits increased from US \$ 482512687 in 2009 to US \$ 1,600,300,333 in 2017. This growth of the customer deposits reflected the evolution of market share of these banks from customer deposits, which rose from 8.8% in 2012 to 12% in 2016, This positive growth in the volume of customer deposits in the Islamic banks was accompanied by a significant expansion in the volume of direct bank financing for individuals and projects. The direct financing rates increased by 552.5% during 2017 compared to 2009. The increase in the volume of direct financing inside the Islamic banks is normal compared

to the increase in customer deposits, As Islamic banks seek to optimize the use of these deposits by granting direct financing to the largest possible segment of customers with these banks in order to maximize the volume of bank revenues using the various forms of financing, whether Murabaha, Mushraka, Mudaraba or others despite the concentration of most Islamic banks in Palestine on Murabaha as the least risk formulas and most returns in the current circumstances.

#### **2.3.2.4 The Development of net profit in the Islamic banks**

The analysis of the profitability of banks is one of the most important financial indicators related to the nature of the activities of those banks, whether linked to the movement of deposit or financing or those associated with investment expansions, As the interaction of the operations indicators is reflected directly on the profitability rates of those banks, which is the main objective of its work. Considering the nature and size of net profits achieved by the Islamic banking sector operating in Palestine, we note the existence of a positive growth movement during the period of its work, which is illustrated in figure (4).



***Figure (4): The Development of net profit in the Islamic banks***

As the growth, rates of net profits of the Islamic banking business in Palestine indicate to the growth in the development process of these banks, where the profits of these banks doubled by more than 1000% 2017 compared to 2009. While the net profit of those banks in 2009 was about 1370738 USD, this figure has grown to \$ 20,311,138 in 2017. The huge increase in net profits of Islamic banks is due to a number of reasons related to the approach of these banks, which focused on keeping pace with modernity in providing banking services on the one hand, and focusing on the culture of the Palestinian society based on Islamic values in obtaining finance considering it as a strong point against competitors of the commercial banks, Which prompted a large segment of customers to go to these banks for religious reasons related to their fear of falling in usury, In addition to their feeling that the nature of the work of these banks commensurate with their practical needs, especially for those who seek small and medium funding.

### **2.3.3 the comparison between the evolution of Islamic banks performance and other banks.**

The analysis of the performance of Islamic banks compared to other banks in the banking sector is one of the most important indicators of their developmental role which is associated with macroeconomic indicators and an important indication of their relative weight with the general economic components within the country. The analysis of the statistics issued by the Palestinian Monetary Authority and the annual reports of the work of Islamic banks indicate to the development of relative weight of the Islamic banking sector of the components of the Palestinian economic system and the increase in their impact on the provision of necessary financing to the various economic sectors and individuals.as illustrated in the following table:

**Table (2): The Indicators of Islamic banks to the Palestinian banking sector**

Year 2012- 2016	Assets of Islamic banks to the total assets of the banking sector %	Direct financing of Islamic banks to the total direct financing of the banking sector %	Deposits of customers in the Islamic banks to the total deposits of the banking sector %	Net profits of the Islamic banks to the net profit of the banking sector %
<b>2012</b>	7.7	9	8.8	4.4
<b>2013</b>	8.6	10.2	9.3	7
<b>2014</b>	9.7	12.2	9.9	7.9
<b>2015</b>	10.5	13	10.9	11.4
<b>2016</b>	11.2	14.1	12	12.7

*Source: Prepared by the researcher depending on the annual report of the Palestinian Monetary Authority 2017 and the annual reports of the Islamic Bank of Palestine and the Arab Islamic Bank 2012-2016.*

The table shows the evolution of the role of Islamic banks in terms of investment or financing for different sectors. The ratios show the development of Islamic banks' share of customer deposits in comparison with the total Palestinian banking sector. As the Palestinian Islamic banks have acquired 12% of the total deposits of customers in the Palestinian banking system during 2016 compared to 8.8% in 2012, The results also show that Islamic banks are able to access new financing channels through direct financing. The direct financing ratios of Islamic banks compared to the banking sector as a whole to increase their share of these funds to 14.1% in 2016. In comparison with 9% in 2012. This ratio clearly reflects the success of Islamic banks in reaching new segments of customers that have been able to expand their financial base and thus increase their competitiveness compared to other banks, On the other hand, the volume of assets of Islamic banks is steadily growing, wherein the rate of assets was 11.2% in 2016 compared to 7.7% in 2012, which reflects the expansion strategy of these in the Palestinian banking market. Finally,

considering the net profits of these banks, they have achieved steady growth to reach 12.7% of net profit in 2016 compared to only 4.4% in 2012, which reflects the ability of Islamic banks to maximize their profits using Formulas and concepts of Islamic finance and promoting it within the Palestinian economy.

## **2.4 Small and Medium Enterprises**

### **2.4.1.1 The Definition.**

Small and medium enterprises (SMEs) are the pillar of the economic development in diverse countries. They have focused on determining the nature and characteristics of small and medium enterprises in order to distinguish them and develop appropriate policies that support the needs and the privacy of SMEs, some countries have different point of views in the definition of SMEs and distinguishing it from large enterprises in accordance with the nature and size of their economies and the adopted criteria to define these projects, Some of the projects that are seen as big projects in our country may be classified as small projects in other countries. The criterion for distinguishing between these projects is based on adopted indicators by each country according to the specific circumstances and economic factors that control them.

Based on this, the number of employees is considered to be one of the most important quantitative criteria which is used in the definition of SMEs. Whereas this criterion is the most effective and more stable in comparison with other criteria. As many Arab countries consider this criterion in determining the small and medium enterprises. There is a very small percentage of these countries which deal with the criterion of the volume of the invested capital, in addition to the presence of a few countries that depend on the criterion

of sales volume in determining the nature of those projects, so the criterion of the number of employees is one of the most reliable criteria in determining the size of the project (Al Nsour, 2015, p. 70)

The World Bank defined the small projects depending on the number of workers criterion as the facilities that employ less than 50 workers, while it described the Projects that employ less than 10 workers as very small enterprises. It also defined the projects that employ from 10 To 50 workers as a small enterprise. Concerning the medium enterprises, it is defined as the facilities that employ from 50 to 100 workers (Amin and Abdel Majeed, 2017, p. 5)

In this context, the United Nations Industrial Development Organization has defined SMEs as the projects that are managed by one owner with full responsibility for its long and short-term dimensions and contain employees from 10 to 15. (Al Naseh. 2008, p. 163). The World Bank has defined these projects based on the criterion of the number of workers as those enterprises employing less than 100 workers, wherein the institution is very small if it employs less than 10 workers, while the enterprises is considered small if it employs from 10 to 50 workers, While it is considered as a medium-sized enterprise if it employs from 50 to 100 workers( Essa, 2009 p 273 ) Economic and social commission for western Asia (ESCWA) defined the small and medium-sized enterprise that employ from 50 to 250 employees (Harb, 2006, p. 116)

The small project in Japan was defined as any project with at least 300 workers and 100 workers if the project was in the service sector, In Taiwan, the small project has been defined as a project that employs 200 workers and less if it is within the industry sector,

construction or mining, and 50 workers if it within the other sectors. In Europe, the small enterprise has been defined that the enterprise which has less than 250 workers. While in South Korea less than 300 workers ( Harb, 2006, p116) Concerning the USA the project is small if it employs less than 500 workers ( Al Juifel, 2013, p15)

Concerning the developing countries, there are clear differences in the definition of small and medium enterprises, as this definition is related to the nature and size of the economies of those countries, where they rely on their economic indicators in terms of the definition of the activity size of the facility.

In Indonesia, for example, the project is small when the number of workers is between 5-9 workers, while in Jordan the project is small when the number of employees is not more than 4, while the medium-sized enterprises, which employ from 5-9 workers. In Syria, the law of small enterprises defined small enterprises as those employs 9 workers or less, while the medium enterprises employ from 10 to 30 employees. Otherwise, they are large projects.

While in Lebanon, the facility is considered small if it employs from 1-5 workers and it is medium if it employs from 6-500 workers, otherwise, It is a large facility (Sabah, 2010, p. 148). in Egypt, the small enterprise is defined as the enterprise that employs less than 50 workers. while in Iraq the enterprise is considered small when the enterprise employs less than 10 workers (Al Juifel, 2013, p. 15).

In Palestine, the classification of the existing projects is based on the number of workers criterion. whereas enterprises are classified as small when they employ from 1 to 4 workers,



while medium enterprises have been defined as those enterprises that employ from 5 to 20 workers, while the large ones are the enterprises that have more than 20 workers (Palestinian Business Forum, 2014, p. 6)

#### **2.4.1.2 The Characteristics of Small and Medium Enterprises.**

Small and medium enterprises have a range of characteristics that distinguish them from other large industries, As these enterprises are capable of rapid development and growth as well as transformation into large-scale projects, enterprises dependence on the local raw materials and the size of their capital makes them attractive opportunities for investors, As investors can finance them without resorting to the search for capital, whether local or foreign, or even seek the support of the government for such enterprises, although the different characterization of these enterprises between the many countries, but these enterprises have a set of common characteristics in all countries, which are represented in the following:

1. Small and medium enterprises (SME) are characterized by individual ownership, where the owner of the enterprise manages his own business, which increases the local ownership of investments and contribution to job creation at the local level and the contribution to reducing the unemployment and stimulating economic growth (Edrees, 2016, P 159). In Palestine, the nature of small and medium enterprises is characterized by family style. Ownership of such enterprises is due to local individuals and thus reflects a range of net domestic investments that play an active role in the employment rates and local economic growth.

2. The small size of the capital to invest, which allows the small investors to direct their money towards it, thus contributing to increasing the domestic savings and directing them to investment because of the limited capital (Dweis, 2013, p. 8)
3. The Flexibility and the ability to deploy due to their ability to adapt to different conditions, which leads to balance in the production process, and such projects are complementary to large industries, where many of the large enterprises rely on their products with backward integration relations in order to complete production processes (Ferwana, 2013, p. 25)
4. Small and medium-sized enterprises are the key to the development of the marginalized areas, which contribute to stimulating growth and development, as well as their ability to create employment opportunities in these areas (Abdellatif, 2018, p. 8)
5. The low cost of creating jobs within small and medium enterprises compared to large enterprises, as these enterprises rely on local workers or family members who work within them, and the obligations of these enterprises towards employees vary in terms of the obligations of large companies in terms of scale of wages or features related to social aspects (Al Mahrouq, maqabla, 2006, p. 4)
6. The specific specialization of such institutions allows them to provide high-quality products that meet the customers' needs. These enterprises also include shortening payback period of invested funds as a result of the small volume of invested capital and ease of marketing, increasing sales as well as short production period. (Batash and Ben Naima, 2014, p. 11).

7. capability for innovation: Small and medium enterprises have a high capacity to renew and innovate methods to achieve customer satisfaction. Hence, SMEs have the quality and excellence in the fields of work, as well as benefit from the experiences of others by repeating successful experiences, and these institutions are characterized by direct contact with their customers, as these institutions are considered the purpose of their existence is to serve customers and to achieve satisfaction. therefore, they are looking for the best ways to serve their customers (Bukhta and Khomkani, 2013, p. 15).

#### **2.4.1.3 The importance of small and medium enterprises**

Small enterprises represent one of the main sources of economic development in the economies of countries in general and in developing countries in particular, as a basic platform for increasing production capacity, raising levels of savings and investment and exploitation of local raw materials. The importance of SMEs can be summarized in the following aspects:

##### **First, the importance of SMEs in the economic development.**

The role of small and medium enterprises in the economic development is represented in their ability to stimulate overall economic growth rates in many countries. The basis of this approach is based on the general rule agreed upon by economists that large enterprises do not grow and succeed if there are no small And medium enterprises that meet the large ones needs of materials and services and buy their products, Which indicates that the nature of the relationship between large enterprises and small and medium enterprises is an interdependence relationship, so SME has played a prominent role in driving economic development in countries that seek to establish such enterprises as they seek to establish

large enterprises, also it encourages individuals to start up small projects as they serve a large group of individuals and are distributed over the largest geographical area within the country. Therefore, we can summarize the economic importance of these projects in the following aspects: (Al-Wondawi, 2008, pp. 123-124)

1. The importance of SMEs in most countries of the world stems from their ability to innovate. The results of the conducted various studies at the international level have shown that more than 55% of SMEs are innovative and creative in production processes and in the nature of products. This may be attributed to the lack of financial resources and the monetary potentials of SMEs which make them unable to acquire modern machinery of high quality, high accuracy, and high cost. These reasons drive these projects to search by various means of innovation and creativity. Whether at the level of employment management, maintenance or innovations.
2. Small and medium enterprises (SMEs) have become increasingly important as a result of global economic changes that have brought many difficulties to large enterprises. These difficulties have led large projects to rely on small and medium enterprises to provide their own supplies to ensure the continuity of production in the planned manner. Large facilities are not able to adapt quickly to the enormous changes in the current era, which are related in particular to the tastes of consumers. This leads them to rely on small and medium-sized enterprises in this field because of their personal and direct connection to the customers and their flexibility that enable them to meet these requirements better than large enterprises.

3. The ability of small and medium enterprises to reduce unemployment by providing employment opportunities for a broad base of the labor force and developing their skills. Thus, they are an important source of income, wealth and savings, which in turn increases total consumption and expansion of spending, production, and investment. Also, they Contribute to the provision of goods and services to community groups, particularly those with low incomes who seek relatively low-priced items commensurate with their purchasing power
4. The ability of small and medium enterprises to develop exports and thus contribute to reducing the deficit in the balance of trade, which achieves the economic advantages of the state and provides an adequate level of foreign exchange (Abdullah and Adous, 2017, p. 328)

**Second: the importance of small and medium enterprises in achieving social security**

Small and medium enterprises play an active role in establishing the rules of community peace through their active contribution to the promotion of socio-economic aspects characterized by indivisible organic interdependence. The economic contribution of these projects contributes to reducing the social unrest that may result from their accumulation. The importance of these enterprises In achieving social security is stated in the following aspects (Al Hamouri, 2017, p. 256)

1. Reducing the internal migration to some areas looking for employment opportunities. This migration may put pressure on the facilities of these areas, causes an imbalance in the distribution of the population and leads to negative effects on society.

2. Reducing the phenomenon of poverty as one of the most serious socio-economic phenomena through its high ability to operate and achieve self-sufficiency of workers at least. Therefore, this contribution limits the spread of social crimes that may lead to the social and economic collapse in the society.

## **2.5 The reality of small and medium enterprises in Palestine**

### **2.5.1 The increase in the number of small and medium enterprises in Palestine**

When talking about the increase in number of enterprises in Palestine, it should be noted that according to the general classification issued by the Palestinian Central Bureau of Statistics in terms of determining the size and nature of operating enterprises, the vast majority of economic enterprises in Palestine classified as small enterprises, where 88.6% of the total economic facilities in Palestine employ from 1 to 4 workers and according to the number of workers within it, it is classified as small enterprises according to the classification of the Palestinian Central Bureau of Statistics, while 10% of these facilities are classified as medium-sized enterprises, While large facilities have a relative weight of 1.4%, as shown in the table (3)

**Table (3): The increase in the number of small, medium and large enterprises in Palestine**

<b>2004 Facilities number (103,846)</b>			<b>2012 Facilities number (151066)</b>			<b>2017 Facilities number<sup>1</sup>(166486)</b>		
<b>small</b>	<b>Medium</b>	<b>Large</b>	<b>small</b>	<b>Medium</b>	<b>Large</b>	<b>small</b>	<b>Medium</b>	<b>Large</b>
<b>4-1</b>	<b>19-5</b>	<b>20and more</b>	<b>4-1</b>	<b>19-5</b>	<b>20and more</b>	<b>4-1</b>	<b>19-5</b>	<b>20and more</b>
<b>%91</b>	<b>%8.1</b>	<b>%0.9</b>	<b>%89</b>	<b>%9.9</b>	<b>%1.1</b>	<b>%88.6</b>	<b>%10</b>	<b>%1.4</b>

*Source: Based on the Palestinian Central Bureau of Statistics, population census, housing and facilities, various publications.*

Regarding the development of the economic facilities in Palestine, we observe the control of small and medium enterprises on the components of the Palestinian national economy with the slow growth of the number of large enterprises in Palestine. The dominance of small and medium enterprises in Palestine has continued since the inception of the Palestinian National Authority in 1994, These facilities accounted for 99.1% of the total facilities in Palestine in 2004, and continued at close rates in the volume of their acquisitions during the years 2012 and 2017 and by 89.9% and 98.6%, respectively. It is important to note that The relatively small change in the structure of the small and medium enterprises in Palestine during the years 2004 to 2017 is due to the development of some small facilities and their exit into the average working mode, in addition to the entry of some medium enterprises to work in large volume. The number of large-scale enterprises increased by 0.5% compared with 2004, and the number of large-scale enterprises increased by 0.5% compared with 2004, the increase Percentage is slight in comparison to the age

period of the facilities. This slight increase in the number of large facilities may be due to the nature of the economic and political conditions surrounding the general investment climate, which reflect the aspirations of the investors and their confidence in working in the Palestinian territories. The political and economic instability in the Palestinian environment plays a role in reducing the expectations of investors concerning the future. Investors optimism about the future reflected directly on the size of economic investments in general, which is the first indicator that strengthens investments whether domestically or broadly.

### **2.5.2 The contribution of SMEs to the national economy**

Small and medium enterprises are the mainstay of the Palestinian national economy and the main component of the Palestinian GDP. SMEs account for 95% of the Palestinian GDP (Palestinian Business Forum, 2014, p. 6). SMEs are also the main employer of employment in the Palestinian Territories, through the analysis of the indicators of employment, it is noted that the control of small and medium enterprises on the largest proportion by its contribution to the employment, the size of the contribution of small and medium enterprises in employment is 79.8% of The total number of workers in the Palestinian Territories in 2012, where the number of workers in various economic facilities was 384778 workers (the Palestinian Central Bureau of Statistics, the reality of facilities in Palestine, 2014, p. 49). It is also noted that there is a development of the number of workers in the economic facilities in Palestine in 2017 which reached to 444086. The control of small and medium enterprises continued to lead the employment process in the Palestinian Territories wherein The percentage of small and medium enterprises in 2017, which employs less than 20 workers, accounted for 98.6% of the total facilities in Palestine.



The small and medium enterprises in Palestine vary in terms of areas of specialization. These projects are divided according to the nature of the facilities work. **The nature of the work of small and medium enterprises in Palestine is divided into the following areas: (Palestinian Business Forum, 2014, p. 10)**

1. Industrial enterprises: small consumption industries or professions and industrial crafts
2. Commercial enterprises: wholesale and retail agents and brokers
3. Service Areas: Various service offices, insurance agencies, insurance, etc., hotel services and personal services
4. Women's small projects that have an impact on the economic and social development of women and the development of the local economy
5. The agricultural holdings of the local population, in addition to the fishing profession
6. Small projects within the framework of NGOs, projects that need further development within the framework of the Palestinian development plan
7. Industries that produce developed products in various fields (engineering, commercial, industrial)

Regarding the contribution structure of small and medium enterprises in the national economy, we note the acquisition of the largest number of small and medium enterprises in the Palestinian territories. The contribution of small and medium enterprises in the commercial sector accounted for 54.6% of the total facilities in the Palestinian Territory in 2017, followed by the services sector, which accounted for 30.2% of the total facilities. As

for the productive sectors, specifically the industrial sector, it is noted that the contribution of small and medium enterprises in this sector to the total facilities in the Palestinian Territory compared to other sectors has decreased. The small and medium industrial facilities accounted for 13.1% of the total facilities in Palestine in 2017 as shown in table (4).

**Table (4): The Distribution of SMEs to the Economic Sectors**

Sector	Facilities number 2004			Facilities number 2012			Facilities number 2017		
	Small	Medium	large	Small	Medium	large	Small	Medium	large
<b>Industry</b>	10722	2819	357	13909	3852	441	15252	4003	578
<b>Trade</b>	53184	1807	57	69,882	3552	178	76394	3871	295
<b>Services</b>	17481	2683	438	33096	5533	859	37930	6493	1125
<b>Constructions</b>	417	237	50	322	246	56	474	291	81
<b>Others</b>	5539	339	3	25	9	2	73	28	14

*Source: Based on the Palestinian Central Bureau of Statistics, population census, housing and facilities, various publications*

The Analysis of the contribution development of the SMEs sector in Palestine, it is noticed that the growth rates of small and medium enterprises were mainly concentrated in the sectors of trade and services, while those of other sectors such as manufacturing and construction declined. The services sector ranked first in terms of growth rates of small and medium enterprises. This rate became 120% in 2017 in comparison to 2004. the trade sector comes in the second, where the growth rate of small and medium enterprises is 54.9% in 2017 in comparison to 2004, or The Palestinian industrial sector grew by 42.1% in 2017 in comparison to 2004. The growth rates of small and medium enterprises in the economic sectors were related to the contribution of these sectors to the GDP. The services sector ranked first in terms of its economic contribution to GDP, which reached 62.7% in 2017, while the contribution of the industrial sector in the GDP for the same year 11.1%, according to preliminary estimates issued by the Palestinian Central Bureau of Statistics.

On the other hand, the number of facilities operating in the Palestinian territories has increased in general. This development took a positive trend from 2004 to 2017. The number of operating facilities increased from 97279 in 2004 to 131730 in 2012 and continued to reach to 146866 facilities in 2017. It is important to note that these figures include the operating facilities only, as there is another group of facilities temporarily suspended due to the internal conditions. In addition to some facilities that conduct supporting activities to the operating facilities, whereas these facilities were considered as a part of operating facilities in Palestine.

### 2.5.3 The contribution of Islamic banks in financing the small and medium enterprises in Palestine

Islamic banks are considered one of the important sources of financing for SMEs in Palestine, whereas the interest in financing the SMEs has grown, this became the concentration of these banks during the previous period. The number of SMEs that received financing from Islamic banks increased by 87.8% in 2017 compared to 2014. Regarding the contribution of these banks to finance small and medium enterprises compared to the traditional banks in the Palestinian territories, we find that they contribute with 6.2% of the number of funded projects compared to the traditional banks in 2017 as shown in table (5):

**Table (5): Financing Small and Medium Enterprises by Islamic Banks in Palestine**

Percentage of SME's that benefit from Islamic banks	The total fund that is given to SMEs by all banks	The number of SME's that benefit from traditional banks	The total fund that is given to SMEs by Islamic banks	The number of SMEs that received Murabahah	Year
<b>10%</b>	1,396,626,825	12,376	137,684,799	772	2017
<b>5%</b>	1,009,793,113	12,103	52,000,495	644	2016
<b>5%</b>	994,688,235	12,562	35,993,311	617	2015
<b>4%</b>	857,912,451	9,868	22,200,832	411	2014
<b>0</b>	497,691,976	6,811	0	0	2013

*Source: Palestinian Monetary Authority, unpublished data (2018)*

Regarding the volume of the provided financing by Islamic banks to small and medium enterprises, we note a positive development in the value of this financing, which increased by 520% in 2017 compared with 2014. Whereas the figures issued from the Palestinian Monetary Authority indicate the increase in the value of Islamic finance for small and medium enterprises from \$22200832 in 2014 to \$137684799 in 2017. Regarding the size of the provided financing to small and medium enterprises by Islamic banks. The table shows that the proportion of this funding is 10.9% of the total provided finance from other traditional banks in Palestine in 2017, which indicates to the financing share of these banks in the financing of small and medium enterprises compared with traditional banks in Palestine and there is a possibility to attract and finance such projects in the future in order to expand the size of the market share of Islamic banks in financing these projects. On the other hand, the contribution of Islamic banks of financing the small and medium enterprises in Palestine has shown a positive trend in terms of the value of funding provided to these projects, by the traditional banks, which is reflected by the increase in the ratio of this financing to the total funding provided by traditional banks, which reached to 2.6% in 2014 and increased to 10.9% in 2017.

concerning the applied Islamic formulas within these banks in granting financing to small and medium enterprises in Palestine, we note that the work of these banks is limited only to the reliance on the Murabaha method, which is considered as the least risky financing form and the simplest in terms of procedures, as shown in the following table (6):

**Table (6): The Distribution of Fund Provided by Islamic Banks to SME's**

<b>Years</b>	<b>Musharakah</b>	<b>Murabahah</b>	<b>Mudarabah</b>	<b>Other financing</b>
2017	0	135,296,281	0	<b>2,388,518</b>
2016	0	51,565,780	0	<b>443,715</b>
2015	0	35,708,681	0	<b>284,630</b>
2014	0	22,200,832	0	<b>0</b>

The above table indicates that the only financing formula applied within the Islamic banks in Palestine is Murabaha and some other forms of microfinance. Concerning the main forms of Islamic finance applied outside Palestine, such as Musharaka and Mudaraba, they are disabled within these banks. Murabaha formula because it does not want to carry high risks especially since the economic environment of small and medium enterprises in Palestine is characterized by instability as a result of a range of obstacles and challenges, whether the political or the economic.

In terms of Murabaha, the volume of financing granted to SMEs is increased from 22,200,832 dollars in 2004 to 135,296,281 dollars in 2017 or 509%, ie there is a increase in the provided finance to these enterprises based on this formula.

## **2.6 the problems and obstacles that face the small and medium projects in Palestine.**

The small and medium projects are considered the main pillar of the economic development processes, despite its vital economic role in stimulating the economic growth rates, they still suffer from many challenges that impede the development of their performance and reach the goals. Perhaps the problems that face the projects in different countries intersect in a group of dimensions that can be summarized in the following points: (aldimagh,2010, page 27)

**2.6.1 Funding problems:** where such projects are difficult to be provided with the necessary funding for establishment and continuity of activities. Most of them depend on self-financing for the establishment. The bank's funding for this purpose is very complicated due to the reluctance of the banking sector to provide the required funding in connection of the high risks that may accompany its work especially in the start-up stage and the inability of those projects to provide the adequate guarantees that qualify them to get the bank funding for their activates.

**2.6.2 Marketing problems:** These projects suffer from the weakness of their abilities to reach the foreign markets to market their products and rely on intermediaries in the marketing process which reduce the profits that can be achieved by those projects where the modernity of the work of these projects and their small size are connected to lack of expertise and sufficient skills to carry out Foreign, effective marketing processes for their products and thus restricting the marketing process of their products to local markets only.

**2.6.3 Legislative:** Many donor countries lack legislative frameworks to carry out the small and medium projects that reflect on those projects in the absence of parties focus their interests on providing the required services of it according to the rules and legislations which lead to the absence of any administrative and financial strategies inside those countries to ensure to those projects the process of qualification and provision of financial and tax advantages in a good legal environment. Where many rules and legislations grant some of the interim tax exemptions of those projects then the imposition of large taxes on the production of those projects after the end of this period granted that vitiates the activates of those projects and make them vulnerable to liquidation and bankruptcy.

Experts agree that funding issues are one of the most biggest obstacles and problems faced by small and medium projects, where small and medium projects face financing difficulties due to their size and modernity. Therefore, the finance institutions are exposed to many risks in funding small and medium projects in their different stages of growth (establishment, first growth, actual growth, consolidation) due to these risks, commercial banks avoid providing the necessary funding for these projects (AlAwad and abu karki, 2017, page7)

In Palestine, the nature of the problems that face small and medium projects intersects with the nature of the problems faced by most of these projects in other countries, with the severity of these problems related to the degree of economic progress of the country. The points of view of researchers and writers on the challenges facing the work of small and medium projects in Palestine indicate to two of these challenges. The first challenge is



represented in the external environment imposed by the nature and privacy of work within the Palestinian environment that is characterized by political and economic instability as a direct result of that Palestine is under the Israeli occupation and the consequent of the appearance of various and potential challenges facing the work of these projects, Where the challenges and problems facing the work of small and medium projects in Palestine can be clarified within the two following different frameworks:

### **First: External Challenges**

In Palestine, the progress of small and medium projects faces a group of external obstacles that are connected to the external environment of the project and that is represented in the following: (Alqoqa,2007, page58)

#### **1. Political instability:**

Palestine is one of the countries that are characterized by a particular privacy different from other countries in terms of the stability of political variables. Where Palestine is under the Israeli occupation that is accompanied by the absence of political stability related to the Israeli occupation of Palestine, Where the factor of political stability is one of the most important factors that contribute to stability in the business environment and the absence of this situation is reflected negatively on the performance and capabilities of small and medium projects from growth and stability as a result of the fluctuation of the crossings between the closure and the partial opening or the recurrent war situations that affected many of the small and medium projects operating in Palestine, which were associated with the absence of market stability and weak capacity on production planning and others.

## **2. Unstable markets consequences:**

The Palestinian markets face a situation of instability and constant volatility as a direct result of a group of external factors that may occur in the Palestinian working environment, which are represented in the cases of sudden closure of crossings and delayed arrival of raw materials or fluctuations in prices and others.

## **3. Importing Obstacles:**

In Palestine, the small and medium projects suffer from the lack of abilities of providing the required raw materials for the production as a direct result of the difficulties that are imposed on the importing process by the Israeli side that are represented in the closure of crossings or the control the cost of import through the Israeli intermediators. Where most of the required raw materials of the production process are imported through the Israeli ports or Israeli intermediators which make these projects suffer from limited profit due to the Israeli control of prices of raw materials that are imported through them. in addition to the high import costs resulting from the delay In the presence of cases of closure and bear the owners of these projects for the costs of delay, which raises the cost of business in Palestine, and the difficulty of obtaining permits and documents necessary for import from abroad countries is one of the biggest obstacles it face, because most of these projects are not registered legally and officially and do not have freedom of movement through crossings that qualify them to obtain the necessary permits.

**Second: Internal obstacles**

At the internal level, the process of small and medium projects faces a number of problems that limit their ability to grow and stabilize. Al-Falit, 2011, p. 1123, says that the most important internal problems and challenges facing small and medium projects in Palestine are:

1. The funding: the projects face difficulties in providing the required fund for their activities because of their small size and lack of guarantees that they can provide, in addition to their modernity and lack of credit record.
2. Governmental processes: Where such projects suffer from high tax value, on the other hand, the lack of a sufficient database for those establishments in the tax system contributes to the narrowing of the work of this part and therefore part of it to high taxes.
3. Competition: the competition and marketing are considered one of the main problems that the small and medium projects face and the sides of competition revolve around the impetrated items from outside that are characterized in the quality and cost due to their dependence on economies of scale and the competition of large companies for such projects.

**(Zubar, 2013, p. 65) adds another set of internal obstacles to the work of small and medium projects in Palestine:**

1. The lack of infrastructure of the road network and the high costs of transportation, electricity, water and other necessary services for the establishment of small and medium projects are considered from the main problems facing small and medium projects in Palestine.
2. High production costs and lack of required items for the continuation of their work in an optimal manner. These projects suffer from the high costs of saving energy as well as the high cost of importing and obtaining raw materials for production as a natural result of the obstacles imposed by the volatile political and economic environment in Palestine
3. The absence of a unified system that regulates the mechanisms of the small and medium productive sector in Palestine, in addition to the absence of such a system of lending policies and incentive tax policies as well as rehabilitation and extension policies.
4. Absence of laws, legislations and institutions that support and protect small and medium projects in Palestine
5. The widespread of the culture of getting comfortable routine jobs among young people and the lack of support for the culture of entrepreneurship and self-employment that drive young people towards the establishment of small and medium-sized projects that contribute to the development process in Palestine

## **2.7 previous studies:**

**Al Shami (2016) research is about the investment in the Islamic banks and its application in Gaza Strip.** This study aimed to recognize the role of Islamic banks in developing the local investment. In addition to clarifying the relationship of banks with the shareholders and the investors as well as the way of operating money to get the investment returns.

This study used the descriptive analytical method to identify the investment nature in the Islamic banks and its application in Gaza Strip, wherein the secondary resources were used in data collection, which included published books, periodicals, and literature in addition to the published financial reports of the public local Islamic banks in Palestine. Whereas the case study method was applied to the Arabic Islamic bank to identify the nature of investments and its different applications in the Gaza Strip.

The study lead to some results represented in the Arabic Islamic bank, wherein it implements its deals legitimately, as well as the deposition way in the Islamic banks is the same as the usurious banks. In addition, the methods of calculating the profits are identical in finance, whereas both of them undergo a certain rate. However, the difference is that the Islamic banks calculate the profit rate on what they buy by a contract and sell it to a dealer by another contract, while the usurious bank calculates the interest rate based on the amount of money that is lent to the borrower, which is forbidden in Sharia.

The study recommended that the Islamic bank should clearly state the investments aspects of its money, and not only mention the investment bodies in the budget. As well as the

study also recommended non-adherence to the views of some jurists as postulates that should be taken. As it is necessary to study the jurisprudential rules as a fundamental basis for devising judgments and dropping them on the emerging issues in contemporary reality.

**Sheikh Eid and Hijazi (2016) research is about "The role of Islamic banks in financing the development sectors in Palestine":** This study aimed to identify the reality of Islamic public banks and their role in financing development sectors in Palestine.

The study used the descriptive analytical method to identify the nature of investment in Islamic banks and its application in the Gaza Strip. The secondary sources were used in data collection, which included published books, periodicals, and literature, in addition to published financial reports of Islamic banks operating in Palestine especially the Islamic Bank and the Arab Islamic Bank in order to determine the nature of the contribution of these banks in financing development sectors.

The study found a significant role for Islamic banks in financing the various development sectors in Palestine. The results showed a rise in direct financing for the sectors of trade, industry, agriculture, services and construction by Islamic banks during t 2015 compared with 2008. Islamic banks contributed with a percent of 148% to the financing of the industrial sector, while 266% to the agricultural sector, 922% to the services sector and 836% to the construction sector during 2015 compared to 2008.

The study recommended the Islamic banks to activate the tools of Islamic finance that are not used to support the various developmental sectors and recommended that it is necessary

to hold workshops for representatives of different economic sectors to clarify the Islamic financing tools that are used in these banks and their usefulness for each sector

**Darwish (2015) study “The role of small enterprises in supporting and developing the Palestinian economy”:** This study aimed to identify the reality of the small projects sector in Palestine and the stages they are going through. in addition to the problems that hinder its development, as well as contributing to setting a future vision for these projects to raise the Palestinian economy. It also aimed to identify the extent of the contribution of these projects in creating new job opportunities in Palestine.

The study used the descriptive analytical methods to assess the role of small enterprises in supporting and developing the Palestinian economy. The secondary sources were used in data collection, which included published books, periodicals and literature, in addition to data issued by the Palestinian Central Bureau of Statistics, and reports issued by official bodies to prepare time series analysis. Wherein multiple regression method was used based on the data of facilities and its employees as well as the data of Gross Domestic Product for the period of 1994—2010.

The study lead to some results represented in the weak role of national banks in financing and lending the small enterprises in Palestine. Many small investors, especially in the Gaza Strip, face financial problems when starting the project. The main reason for that is the usury whereas many investors avoid borrowing from usurious banks, and their desire to establish a fund for small projects. The results also indicate a positive relationship between the time factor and the number of small enterprises in Palestine, the gross output of these

projects. Over time, small enterprises are growing in Palestine and their output volume is increasing.

The study recommended the necessity of rehabilitating the infrastructure of the industrial sector, establishing a specialized bank for industrial lending, establishing supporting institutions to the industrial sector, easing government procedures and complexities, adopting incentives policy for the development of small enterprises, as well as formulating comprehensive development policies that take into account the local potential and actual needs of the Palestinian society.

**AL Shurafa (2012) The role of Islamic banks in developing the industrial sector in the form of Istisna'a and parallel Istisna'a applied study on the Islamic banks in Palestine.** The aim of this study is to state the difference financing role among lending institutions and the impact of this difference on the economic indicators of small economic projects in the Gaza Strip.

This study used the analytical descriptive method to identify the role of finance in the development of small enterprises in the Gaza Strip. The secondary and primary sources were used in data collection, which included published books, periodicals, and literature. While the questionnaire was used to get the primary resources through applying the study on a random sample, which included 130 small women's projects, funded by lending institutions in order to identify the important variables that influence the funding process to these projects.



The study concluded that there was no correlation between loans provided by lending institutions and increase or decrease in the capital invested in the project. The results also indicated a correlation between the average monthly income of the project and the invested capital. Finally, the results showed that there is a decline in the size of the invested capital by the increase in the interest rate set by the lending institutions.

The study recommended that it is necessary to develop the legal and legislative environment to include small projects in general and women's projects, in particular, to suit their specificity and respond to their needs. The study also recommended that there should be a concentration on establishing business incubators by the official bodies or the private sector institution to rehabilitate these projects as well as funding them.

**Mushtaha (2011): "The Role of Islamic Banks in Promoting Domestic Investment in Palestine for the Period 1996-2008:** This study aimed to identify the nature of work of the Islamic banks and their various activities and the forms of financing practiced in Palestine. It also aimed at identifying the investment opportunities and obstacles facing them and the nature of the relationship between these investments and the role of Islamic banks in Palestine.

The study used the descriptive analytical methodology to identify the role of Islamic banks in driving local investments in Palestine. The secondary sources were used in data collection, which included published books, periodicals and literature, in addition to the published financial reports of the Islamic banks, which included (the Islamic Palestinian bank, the Islamic Arabic bank, and the Islamic Aqsa bank) to analyze the assets of these banks, the investment aspects and the different employment of their funds. In addition,

determining the proportion of the various methods of recruitment of funds within these banks and comparing them with commercial banks in Palestine.

The results of the study showed that despite the growth rates of most indicators of Islamic banks, their contribution is negligible in local investments and in GDP. The results showed that Islamic banks significantly rely on short-term investments especially the funding and profits issues. Finally, the results indicate that there is no significant relationship between (size of assets, total investments, the ratio of investments to resources, the ratio of investment methods to total investments, foreign investments) and the domestic investment.

The study recommended to expand the establishment of new Islamic banks to provide services to the largest possible number of Islamic banking users because of the lack of numbers of Islamic banks in Palestine and recommended to use different Islamic financing forms and not merely one type of financing forms which usury.

**Al Dmagh (2010) "The role of finance in developing micro-enterprises, An applied study on women's projects funded by lending institutions NGOs in the Gaza Strip":**

The aim of this study is to explain the extent the role of financing between lending institutions and the impact of this difference on the special economic indicators of Small-scale economic projects in the Gaza Strip.

This study used the analytical descriptive method to identify the role of finance in developing small enterprises in the Gaza Strip. Whereas the secondary and primary sources were used in data collection, which included published books, periodicals, and literature. While the questionnaire was used to get the primary resources through applying the study

on a random sample, which included 130 small women's projects, funded by lending institutions in order to identify the important variables that influence the funding process to these projects.

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**Nosyba (2016) “The contribution of Islamic banks to economic development”. a case study of Al Baraka Bank - Biskra Agency.**

The objective of this study is to determine the extent to which Islamic banks contribute to the development of societies and to identify the most important impediments to their work by using the case study of Al Baraka Bank and evaluating its contribution to the development of the Algerian economy.

This study used the descriptive analytical method to study the phenomenon and explain the role of Islamic banks in development by studying the various relations between the nature

of the work of these banks and the rates of economic growth in Algeria. In addition to relying on the use of the historical approach to studying the formation and development of the work of Islamic banks. Secondary sources in the collection of data, which included published books, periodicals, and literature as well as financial reports issued by Al Baraka Bank in order to analyze the nature of the Bank's work and the various forms of finance in order to achieve economic development.

The study lead to some results presented in the Islamic banks' role in providing a variety of financial formulas that contribute to achieving economic development directly and in line with the nature of economic activities and craftsmanship. These transactions are characterized by flexibility, comprehensiveness, and adaptability at all times and places. It also pointed out that Al Baraka Bank is suffering from legal and supervisory vexation, as there is no Islamic banking law that regulates its work.

The study recommended strengthening the relationship between Islamic banks and the Central Bank to refute the contradiction and raise the level of competition among the staff of the banking system. The study also recommended that Al Baraka Bank should not focus on one form of finance such as leasing but it should expand its activities through participation.

**Tmam (2015) Financing Small and Medium Enterprises in Islamic Banking Forms"**  
**Case Study of Algerian Baraka Bank - Biskra Agency**

The aim of this study is to clarify the extent to which alternative financing formulas in Islamic banks are suitable for the small and medium enterprises sector in Algeria and to

examine the contribution of alternative financing formulas to the needs and requirements of small and medium enterprises.

This study used both the historical approach and the analytical descriptive approach to study the phenomenon, where some historical facts and chronology of the emergence of Islamic banks and the emergence of Al Baraka Islamic Bank were used. The analytical descriptive approach was used to comprehensively examine the topic studied as the most appropriate method for analyzing the role of Alternative financing formulas for Islamic banks as an effective source of financing for small and medium enterprises. Whereas the case study method was applied on the bank depending on the primary and secondary resources to collect the data which included the reports that were issued by the bank which were used to analyze the indicators and financing formulas of the small institutions. In addition to, using the interview method to gather the primary data.

The results of the study showed that the main concern of Al Baraka Islamic Bank is to fund the small and medium enterprises. The results also showed the absence of some forms of Islamic funding such as speculation and participation, which are more suitable for financing small and medium-sized enterprises.

The study recommended that it is necessary to establish Islamic banks specialized in financing small and medium enterprises, make a considerable flexibility in legislation and laws, and adapt them according to economic conditions.

**Ijbara, (2016) "The role of Islamic banks in supporting small and medium enterprises in Libya":** This study aimed at introducing small and medium enterprises, highlighting

them economically and socially, and the positive impact of these projects on the overall economic development. As well as reviewing the experience of some Arab countries in supporting small and medium enterprises with a focus on the Libyan experience in the development of Islamic financing formulas to finance small and medium enterprises.

The study used the descriptive analytical method to show the role of Islamic banks in supporting small and medium enterprises. The study relied on secondary sources to collect data, which included books, scientific journals, and periodicals, as well as reports issued by the official, civil and international institutions to present and compare the experiences of different countries and compare them with Libyan experience in supporting the small and medium enterprises.

The study concluded that the Libyan experience is a modern experiment and needs a lot of support from the state, especially with regard to the legislative and legal aspects. As well as the consolidation of the administrative and technical practice of Islamic banking and working on developing it to enhance the utilization of the financing formulas of the Libyan Islamic banks.

The study recommended that it is necessary to support the Islamic banks to provide financing for small and medium enterprises in Libya, thus enhancing their competitiveness and developing their contribution to community development, which is positively reflected on all societal frameworks in Libya.

**Ayash and Manasra (2016) “Islamic Finance as an Alternative fund for Small and Medium Enterprises”**

The aim of this study is to highlight the role of Islamic finance in solving the problem of financing small and medium enterprises in order to ensure their continuity and development, especially in light of the financial constraints they experience. It also aims to clarify the importance and appropriateness of Islamic finance for small and medium enterprises.

This study used the analytical descriptive method to study the phenomenon in order to comprehensively examine the topic studied as the most appropriate method of study, relying on the secondary sources of data collection, which included published books, periodicals, studies, and reports issued by different institutions to study the various theoretical dimensions of Islamic finance. Also trying to analyze the extent of the importance and appropriateness of this type of funding with the needs of small and medium-sized enterprises and their financing characteristics, and then clarify the role of this funding method in solving the problem of financing.

The study concluded that the method of Islamic finance would contribute to the development of small and medium enterprises and reduce their funding problems through its various forms, which are characterized by flexibility, integration, and diversity, which contributes to the provision of financial resources in accordance with the financial needs of these institutions. The results showed that the nature of Islamic finance to projects stimulates the owners of small and medium enterprises to work diligently for the success of their institutions because they are partners in the resulting profits, and also provides

financial resources for the experiences to finance their activities Which motivates them to take out their creative energies for the benefit of the economy as a whole.

The study recommended that it is necessary to promote the definition of various forms of Islamic finance and how to benefit from them for small and medium enterprises. The study also recommended encouraging the establishment of financial institutions that are specialized in Islamic finance and targeted to fund the small and medium enterprises.

(Alsawy and Ali, 2015 )”The role of banks in sustaining microfinance to address community poverty. A case study of a group of Sudanese banks for the period 2007-2012”

The aim of this study is to identify the role played by banks in financing micro-projects to reduce poverty and unemployment. It also aims to clarify the reasons behind the failure of banks to provide full funding for these projects.

The study used the historical, deductive and inductive method, in addition to the analytical descriptive method to describe the variables of the study and analyze their relationship using the statistical packages for social sciences (SPSS). The secondary and primary sources were used in the collection of data including books, periodicals, In order to study the various theoretical dimensions of Islamic finance. And rely on the questionnaire to collect preliminary data, where the study community represents the staff of the banks of the Department of Investment and Research, which included (Bank of Khartoum, Omdurman National Bank, Feisal Islamic bank, Savings, and Farms), where 100 questionnaires were distributed to senior management staff at these banks. 94 forms were used for analysis purposes.



The study concluded that the contribution of Sudanese banks to the provision of financing for small enterprises was low due to the low volume of revenues achieved by microfinance, the high risk of non-refunding, high follow-up costs, and supervision. The reduction in the volume of guarantees required to grant funding has a negative impact on the volume of funding granted to these projects.

The study recommended that banks should be encouraged to grant microfinance through the granting of tax exemptions and incentive benefits to these projects. It also recommended the licensing of specialized microfinance banks with the development of financing policies that take into account the efficiency and effectiveness of production and transferring development to the countryside.

**ALgewfel (2013) “The Role of Islamic Banks in Financing Small and Medium-sized Enterprises in Jordan” field study.**

The aim of this study was to identify the methods of Islamic banks in financing small and medium enterprises and to evaluate the appropriateness of these methods in financing these projects. It also aimed at identifying the problems facing the projects in obtaining financing and the obstacles facing the granting of funding from the banks and the best possible solution to the funding dilemma.

The study used descriptive methods to describe the variables of the study and analyze their relationship using the statistical packages for social sciences (SPSS). The secondary and primary sources were used in collecting data, including published books, periodicals, studies, and reports issued by the various institutions to study different forms of Islamic

finance, As well as relying on the questionnaire to collect primary data. The study population represents all the Jordanian Islamic banks (the Islamic Bank of Jordan, the Arab Islamic International Bank), where 150 questionnaires were distributed to the employees of the Islamic Bank of Jordan and the Arab Islamic International Bank, all of which were valid for analysis and were a basic source of getting the results of the field study.

The study lead to some results that showed the role of the Islamic banks in Jordan in financing small and medium enterprises, as well as the high efficiency of the Islamic financing formulas that is applied in those banks in financing these projects. The results also indicated that the most important obstacles that hinder these projects from getting a finance were represented in the Lack of commitment of those projects to audit their accounts by an external auditor, which deprives them of getting a fund.

The study recommended that the competent authorities (the Central Bank and the Association of Jordanian Banks) should contribute to the success of the experience of Islamic banks because of their important impact in the collection of savings and finance the small and medium enterprises. The study also recommended that Islamic banks should be interested in planning and feasibility studies of projects, which require them to follow the strategy of conversion from usury to speculation and participation.

### **Purnamasari & Darmawan (2017) "Islamic Banking and Empowerment of Small Medium Enterprise"**

Purnamasari & Darmawan, 2017 examined of Islamic banks in developing the small and medium enterprises in Indonesia through the connection between the development of small and medium enterprises and the nature of provided Islamic banking services.

The study used the descriptive methodology to identify the role of Islamic banks in the development of small and medium enterprises in Indonesia. The secondary sources were used in collecting data. The data of the Indonesian Bank and the statistics issued by the Ministry of Cooperatives and SMEs in order to classify the projects in Indonesia according to size, in addition to analyzing the aspects of financing provided by Islamic depending on the financial reports issued by these banks.

The study found that a positive relationship exists between the development of small and medium-sized enterprises and the size of their employment and Islamic banking. This relationship indicates a positive contribution of Indonesian Islamic banks to the development of small and medium-sized enterprises.

The study recommended that it is necessary to establish partnerships, cooperation, and development between Islamic banks and small and medium enterprises in Indonesia to work as an integrated system. So that, the development and training companies can play an important role in developing human resources and improving the capacities of small and medium enterprises. In addition, enable them to obtain funding in order to change the stereotype of the poor into a more productive society.

**Muneer et al (2017) Impact of Financing on Small and Medium Enterprises ( SMEs) Profitability with Moderating Role of Islamic Finance.**

Muneer et al (2017) investigated the determinant of the impact of financing fixed and current assets and financing the preparation process on the development of small and medium enterprises through Islamic financing as a medium variant in Pakistan.

This study used the descriptive analytical methodology to study the effect of Islamic financing on the growth of SMEs in Faisalabad in Pakistan. The study relied on data collection on both secondary and primary sources. Secondary sources included books, magazines, reports, periodicals and other sources. The primary data was collected through the survey. Whereas all SMEs and Islamic banks in the Faisalabad region represented the study population, where 200 small and medium-sized companies and 70 branches were selected in Faisalabad. 270 questionnaires were distributed to each Islamic company and banks, while 187 valid forms were recovered for analysis purposes.

The results of the study showed that there is a positive impact of Islamic finance on the growth of small and medium enterprises in Pakistan. The results showed that the Islamic finance of fixed assets of small and medium enterprises contributed to increasing the profitability of these companies by 69.2%. In addition, the results showed 10-20% of SMEs rely on the Islamic finance for their fixed assets, and the results showed that the most suitable Islamic formulas to finance small and medium enterprises were usury, participation, and speculation.

The study recommended that it is necessary to study deeply each aspect of Islamic finance and its impact on the growth of SMEs in Pakistan.

**Matarneh & Almanaseer (2015)” Contribution of Islamic Banks in Financing Small and Medium Enterprises in the Kingdom of Bahrain”**

Matarneh & Almanaseer (2015) is to describe the importance and definition of small and medium enterprises in the Kingdom of Bahrain and to identify the contribution of Islamic banks in financing these projects, in addition to determining the extent to which these projects contribute to the national economy of the Kingdom of Bahrain.

The study used the descriptive analytical methodology to show the role of the Islamic banks in financing small and medium enterprises. The secondary sources were used in data collection, which included books, periodicals, and publications related to the research. In addition to relying on the data provided by Tamkeen Foundation to support small and medium enterprises in Bahrain for the period 2010-2012.

The study lead to some results represented in the increase of the contribution of Islamic banks in the Kingdom of Bahrain in financing SMEs during the period 2010-2012 based on the Islamic rules of financing, which is based mainly on the principle of risk sharing. The results also indicated that there is an effective contribution of small and medium enterprises in providing job opportunities, reducing unemployment and developing human resources in the Kingdom of Bahrain.

The study recommended paying attention to small and medium enterprises not only in funding issues but also in the issues of development and qualification and the efficiency of

the employees because of their important role in driving the growth in the national economy. It also recommended organizing seminars to raise awareness of the importance of small and medium enterprises at the national level.

**Yussuf, (2015)” Effect Of Islamic Banking On Growth Of Small and Medium Enterprises in Nairobi: A Case Study Of First Community Bank”**

The aim of this study is to determine the impact of Islamic banking on the development of SMEs in Nairobi, Kenya.

The study used the descriptive analytical methodology to study the impact of Islamic banking on the development of small and medium enterprises in Nairobi. Both secondary and primary sources were used to collect data. Secondary sources included books, periodicals, and publications related to the subject. While the primary data was collected through a questionnaire distributed to 360 owners of SMEs in Nairobi that reach to 4,000 SMEs. As well as the distribution of 80 questionnaires to the employees of the first community bank. Where these forms were used for the analysis.

The results of the study showed a positive and significant impact of Islamic banking services of small and medium enterprises in the growth and development of projects in Nairobi. The results also showed that the Islamic banks have introduced a variety of forms of Islamic banking financing that meet the needs of these projects.in addition, the services provided by these banks have improved the financial decision-making processes within these institutions.

The study recommended that small and medium enterprises should seek to enhance their financial performance by developing their capacity to benefit from Islamic banking products.

**Mumani, (2014)” Islamic Finance for SMEs in Jordan 1978-2014”**

This study aimed at determining the role of Islamic banks and financial institutions in financing the development of small and medium enterprises in Jordan.

The study used the descriptive analytical methodology to study the role of Islamic banks and financial institutions in the development of small enterprises in Jordan. Both primary and secondary sources were used in collecting data. Secondary sources included books, periodicals, and publications related to the subject. The primary data was collected by a questionnaire distributed to investors in 8 cities in Jordan (Amman, Irbid, Zarqa, Salat, Tafleh, Mafraq, Jerash, Ajloun). Where 600 questionnaires were distributed and 528 valid forms were retrieved for analysis purposes.

The study lead to some results represented in the great role of the banks and the Islamic financing institutions in developing small and medium enterprises. The results also showed that the Islamic financial systems are more efficient than traditional systems in supporting and developing small and medium enterprises. The results indicated that the time spent on getting The Islamic Bank's approval for financing is short compared to traditional financial institutions; therefore, customers prefer the Islamic banks and Islamic banks because of their simplicity and suitability with Islamic laws.

The study recommended that it is necessary to take into account to fund SMEs sector by Islamic banks as much as possible because of its vital importance in supporting economic and social development. The study also recommended developing an independent administration to support and sponsor small and medium enterprises, as well as the need to adopt various forms of financing and investment by banks and Islamic banks to maximize the benefit of small and medium enterprises.

**(Huda, 2012)" The Development of Islamic Financing Scheme for SMEs in a Developing Country: The Indonesian Case"**

This study aims to provide a framework through which Islamic financing formulas can be used to solve the problem of financing faced by SMEs in the developing countries. Based on the analysis of the behavior of Islamic banks in financing grants and the needs of small and medium enterprises and the conflicting issues between the strategy of banks and the needs of projects in order to apply a common denominator to overcome these problems.

The study used the descriptive analytical methodology to study the development of Islamic banks in the granting of financing of small and medium enterprises in Indonesia. The secondary sources of data collection were based on statistics issued by the National Statistics Agency and the Central Bank of Indonesia. In addition to, the published studies and reports.

The study lead to some results that showed the important problems which are the lack of funding and lack of ability to obtain adequate funding for their activities, and the results indicated that one of the most important solutions to this dilemma is the use of Islamic finance formulas for these projects, but the basic dilemma that faces the use of these



formulas are uncertainties in banks. This dilemma can be overcome by building a genuine partnership and the creation of the innovation system in participatory financing system so that all relevant parties can share mutual benefits by using these formulas.

The study recommended that the government should work with the academic community as a strategic partner for Islamic banks to reduce the asymmetric information that prevents banks from providing the fund to small and medium enterprises.

#### **2.7.4 Comments on the previous studies:**

After reviewing the previous studies of the study variables. We can conclude that most of the previous studies have dealt with theoretical frameworks of the concepts of Islamic finance and the various forms that are adopted in the financing process to SMEs. These studies have linked the role of Islamic finance with the growth of SMEs as the pillar in the development of the economies of developing countries, while some studies focused on the main obstacles that SMEs experience in obtaining the necessary funding to support their activities.

#### **Through these studies we can conclude the following:**

1. Most of the previous studies aimed at stating the importance of supporting small and medium enterprises and developing Islamic financing methods and formulas to be compatible with development requirements of these projects and focused on clarifying the role of Islamic finance in enhancing the continuous growth of these projects.
2. Most of the previous studies used the descriptive analytical method to analyze data.
3. Most of the previous studies relied on the questionnaire to collect primary data while some of them used the interview method.

4. The sample of the study varied in previous studies according to the environment in which the study was conducted. The sample sizes varied according to the target group of the study.

#### **2.7.5 The matching points between the current study and the previous ones.**

1. The current study agreed with most of the previous studies in using the descriptive analytical method to collect and analyze data.
2. The current study agreed with most of the previous studies in using the questionnaire tool as the basis for collecting primary data.
3. The current study agreed with some studies in dimensions and sub-variables of the study dimensions. Whereas it agreed with these studies (Mumani,2014) (Yussuf, 2015) (Purnamasari& Darmawan, 2017) ( Nosieba, 2016) (Ijbara,2016) (Juifel,2013).
4. Most of the previous studies agreed on the study sample that targeted the owners of small and medium enterprises.

#### **2.7.6 The disagreement points with the current study.**

1. the current study differs from the previous studies in the problem of the study, which seeks to provide specific answers to its assumed questions.
2. The current study differed from the previous studies in the objectives. Most of the previous studies have examined the impact of Islamic finance on the growth of small enterprises based on the published financial data in the official reports. Some studies linked the growth of small enterprises with the provided fund from the civil society organizations based on the owners' views. While the current study tries to achieve the objectives that are

different from the previous studies. These objectives focus on testing the effectiveness of Islamic finance methods, which are applied in the Palestinian banks on the growth of SMEs depending on the owners' views and needs. In addition to focusing on the obstacles of fund processes. This is the difference between the current study and the previous studies in term of goals.

3. The current study differed from the previous studies in term of hypotheses.

4. The current study differed from the previous studies in the study environment.as it focused on the small and medium enterprises in Palestine.

#### **2.7.7 The advantage points of this study.**

The current study is considered as the most important study among many studies that diagnose the problem of funding small and medium enterprises in Palestine. This study depended on linking the chronicles of the environment and practices of Islamic funding in the banks in Palestine with self-growth of these projects. Wherein this study went in for the partial level of the enterprises and not at the total level of the growth ratios of the domestic product within the country. Wherein the previous studies linked the process of funding the SMEs with the economic growth ratios based on the time series data and the published reports by the central banks or the operating banks. Then linking the funding with total indicators does not give a precise thorough view of the funding contribution to the self-development of these projects. While the current study accurately explains self-development based on the provided funding by the Islamic banks. This study has many contributions compared to the previous studies.

1. the current study shows the recent intellectual contributions to the formulas of Islamic finance and the Small and Medium Enterprises.
2. The current study is distinguished by the content comprehensiveness of the Islamic financing Pattern as well as small and medium enterprises. This study contains a clearly detailed theoretical framework, which helps researchers and interested parties to refer to it and benefit from it widely.
3. The current study was distinguished by studying the methods and procedures of granting Islamic finance to small and medium enterprises in Palestine. In addition to the obstacles that prevent some of them from obtaining fund that is not mentioned in the previous studies that only studied the effect of funding small and medium enterprises on the economic growth rates at the general level, some of which focused on its effect on the projects in general, based on published statistics. Consequently, the development or growth of these projects has been linked to some indicators derived from these reports such as employment growth rates or the increase of enterprises number, which reflects a general framework for analysis based on official statistics. While the current study has gone into deep details of the enterprises' growth in terms of profits, productivity, quality and costs indicators.
4. The current study is the first study at the local level, which deals with the issues of manufacturing and operations performance. The local market is exempt from any studies that search in this framework, which supports the authenticity of this study in its application to the Palestinian food industry.

5. This study attempted to complete the research efforts that carried out at the Arab and international level in the field of Islamic finance for small and medium enterprises, wherein this study went in for SMEs especially in the Palestinian environment, which is an important addition to the scientific level that supports the continuous research efforts in the economic field to enhance the authenticity of scientific research and its sustainability in terms of concepts and applications in various environments.

## **Chapter 3: Methodology & Research Design**

### **3.1 Introduction**

This chapter describes the methodology of the research adopted to accomplish the objectives of the research. The term methodology is used to establish a step-by-step procedure for reaching the intended research results. The purpose of any research is to search for answers of questions through the application of scientific procedures. The main purpose of this research is to study “*The Role of Islamic Banks in the growth of Small and Medium Enterprises in Palestine*”. This chapter is divided into the following sections: Research Methodology, Research Population, Research Model and variables, Questionnaire Design, Data coding and editing, Reliability and Validity, Statistical techniques and Software had been used in the research.

### **3.2 Research Methodology**

This research is considered one of the field researcher used the descriptive analytical methodology which studies the phenomenon as it is, describes it accurately and clarifying its characteristics through collecting, analyzing and explaining data. The usage of this methodology aims to examine “*The Role of Islamic Banks in the growth of Small and Medium Enterprises in Palestine*”.

The descriptive analytical methodology characteristics are not only collecting and organizing data that are related to a specific phenomenon, but also aim to reach conclusions that contribute in understanding reality throughout analyzing and explaining the studied phenomenon. Furthermore, it reaches meaningful generalizations that enable the study to enrich the knowledge about that phenomenon and contributes in developing the fact of an

intentional phenomenon, standing on the most important advantages and disadvantages, trying to improve the disadvantages and developing the advantages that are related to the phenomenon under study.

### **3.3 Research Population**

in general, the study aims to highlight the role of Islamic banks in the development of small and medium enterprises, where the research population is representing the small and medium enterprises in Palestine, and the researcher chose a random sample from entrepreneurs which contains (74) projects that had obtained financing from the Arabic Islamic Bank, (50 projects in the West Bank), (24 in Gaza Strip). where the study sample included some sectors such as (artificial, commercial, agricultural, services)

### **3.4 Justifications for choosing the study Population**

1. In general, the small and medium enterprises are considered as one of the most important factors of development in the developing countries particularly in Palestine.
2. 95% of active projects in Palestine are classified as small and medium, wherein its number is 140000 facilities.
3. The small and medium enterprises are considered as an essential starting point to increase productive capacity and contribute to solving the unemployment and poverty.
4. The projects have the ability to make a fast change, and innovation and development. its considered the key factor in the employment absorption, where it is considered the primary engine of economy, investment and economic growth.
5. the small and medium enterprises represent 80% of total workforce in Palestine.

### 3.5 Questionnaire Design

This research is conducted by using a quantitative research methodology. A descriptive research approach was followed to use the questionnaire that is designed to examine the *“The Role of Islamic banks in the growth of Small and Medium Enterprises in Palestine”*, by focusing on four dimensions, the research questionnaire consists of three parts as follows:

**Part 1:** Consists of Project information of the respondents (Project Nature, Project Size, Project Type, Project Capital, No. of Workers, Project Age, Project annual sales).

**Part 2:** Consists of Finance information of the respondents (Finance type, Purchase source, Finance period, Finance amount, Guarantees).

**Part 3:** which consists of four dimensions as follows: (1) **“Granting finance procedures”** consists of Sixteen items, (2) **“Role of Islamic banks in developing SMEs”** consists of thirteen items, (3) **“SMEs growth obstacles”** consists of ten items, (4) **“Recommending toward growth of SMEs”** consists of ninth items.

#### 3.5.1 Scale of items

Questions of questionnaire were proposed in the form of statements using a five-points Likert scale, asking respondents to rate the level of their agreement assigned to (1) “Strongly disagree”, (2) “Disagree”, (3) ‘Neutral’, (4) ‘Agree’, (5) “Strongly agree”.

The level of agreement will determine each item and each construct according to five levels. Table (7) below shows the levels of the consent based on five levels (*Very Low, Low, Medium, High, Very High*).



**Table (7):** Level of agreement about Items according to mean value of answers.

Level of agreement	V. Low	Low	Medium	High	V. High
Mean	1 - 1.80	1.80 – 2.60	2.61 – 3.40	3.41 – 4.20	4.21 – 5.0
RII	20% - 36%	36% - 52%	52% - 68%	68% - 84%	84% - 100%

*Hint: Mean: Mean of answers, RII= Relative Important Index.*

his gives a clear indication the averages that are less than (1.80) indicate to a very low degree in the consent on the item or the axis which means a high degree in the disagree. the averages between (1.80-2.60) indicate to a low degree in the consent which means a high degree of disagree on the items and dimension. the averages between (2.61-3.40) indicate to a medium degree in the consent or neutral degree on items and dimension. the averages between (3.41-4.20) indicate to a high degree in consent. the averages between (4.21-5.0) indicate to a very high degree of consent. this segmentation is selected according to a 5-degree scale of Likert Scale which is adopted in correcting the tool of the study.

### 3.6 Sources of Data.

**The Sources of Data are divided into two types:**

#### 1. Secondary sources

the secondary sources will be used to collect data related to the study, which include sources, references, books, journals, periodicals, research, university letters, reports and publications issued by official governmental or non-governmental institutions or international, regional and local organizations as well as the web related to the study.

## 2. Primary sources

The information of the study population (field study) were obtained through questionnaires that was distributed to the owners of small and medium enterprises in Palestine.

### 3.7 Research Limitations.

- ✓ **Place limit:** the research is conducted in Palestine, as well as to small and medium enterprises in Palestine.
- ✓ **Time limit:** The research was applied in 2018.
- ✓ **Human limit:** This study targets the owners of small and medium enterprises in Palestine.

### 3.8 Data coding and editing

Once the quantitative data were obtained via the survey, the data were checked for missing values, inconsistencies and any other response errors. A coding was constructed manually which contained general instructions on how each variable was coded. For quantitative data input and analysis, the Statistical Package for Social Science (SPSS) was used. The coded data were rechecked visually for the detection of any possible data entry errors. Descriptive statistics were computed for all the variables for accuracy of inputs as follows: the range of each variable was checked for out-of-range values; frequency counts were performed; the distribution of each variable was analyzed to detect irregular answers and cases with extreme values; and the means and standard deviations were computed.

### **3.9 Reliability and Validity**

Validity and reliability are concepts that capture the measurement properties of a survey, questionnaire or another type of measure. Reliability is necessary for establishing the validity of a measure and ensuring accurate interpretation (Churchill & Brown, 2007). The validity of an assessment is the degree to which it measures what it is supposed to measure (Malhotra, 2007). This is not the same as reliability, which is the extent to which a measurement gives results that are consistent (Golafshani, 2003). Therefore, reliability analysis of the constructs needs to be undertaken prior to testing their validity and hypothesized relationship (Churchill & Brown, 2007). We give an initial assessment of the reliability of constructs through internal consistency using Cronbach's alpha coefficient, Split-Half method. Then their validity is established in two different ways: Content validity and Construct validity.

#### **3.9.1 Validity**

Validity of an assessment is the degree to which it measures what it is supposed to measure, which means “determining whether a measuring instrument actually measures what it is supposed to measure” or the “degree to which a measuring instrument measures what it intends to measure” (Long & Johnson, 2000, p. 31). In this research, we consider content validity and construct validity as suggested by many scholars (e.g. Bagozzi et al., 1991; Hair et al. 2010). Content validity is to ensure the content of instruments by different ways, while the assessment of construct validity requires that the correlations of the measure be examined in regard to variables that are known to be related to the construct (Churchill & Brown, 2007).

The construct validity test (Pearson test) measures the correlation coefficient between each item in the dimension to which it belongs.

#### **3.9.1.1 Content Validity**

Content validity refers to the extent to which a measure represents all facets of a social construct. This refers not to what the test actually measures, but to what it superficially appears to measure (Sarantakos, 2005). To demonstrate content validity, testers investigate the degree to which a test is a representative sample of the content of whatever objectives or specifications the test was originally designed to measure. (Churchill & Brown, 2006). It's concerned with the question of whether the instrumentation includes a sufficiently representative number of items to ensure that all ways to measure the content of the studied construct (Sarantakos, 2005). Hence, content validity includes any validity strategies that focus on the content of the test, Then, it was presented to a group of seven academics from different faculties and universities, review the questionnaire to judge its validity. The evaluation of the questionnaire was according to its content, the clearness of its items' meaning, and its appropriateness for the research, to avoid any ambiguous items and to assure its linkage with the study.

#### **3.9.1.2 Internal consistency and Discriminant Validity**

*Internal consistency* is the range of correlation between degrees of dimensions with degrees of component elements. The existence of internal consistency is verified by calculating the coefficients of correlation between the degree of each item and the total degree of the dimension that it belongs to in order to verify the range of validity of

questionnaire measurements. *The Discriminant Validity*: is the ability of the test to differentiate the followed items to each dimension and the absence of overlap among the dimensions and its values calculated through the results of the analysis by calculating the square root to the variance ratio that the latent factor derives. the values that extend 0.50 indicate a reasonable degree of discriminatory validity.

The following Table (8) shows the correlation coefficient for each item of the dimension “**Finance issuance procedures**”. The p-values are less than 0.05, so the correlation coefficients of this dimension are significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of this dimension are consistent and valid to measure what it was set for.

the value of DV indicator more than 0.50 and the value of DV indicator greater than 0.538, these values indicate that there is good validity of the data.

**Table (8):** correlation coefficient for each item of the dimension “Finance issuance procedures y”.

Items	Test	
A1: Islamic finance is the best choice for the project	Person correlation	0.335*
	P-value (Sig)	0.004
A2: Islamic Finance issuance procedures takes no long time	Person correlation	0.589*
	P-value (Sig)	0.000
A3: Required guarantees are reasonable and can be obtained	Person correlation	0.401*
	P-value (Sig)	0.000
A4: Required guarantees from Islamic banks are more flexible than commercial banks	Person correlation	0.585*
	P-value (Sig)	0.000
A5: Interest rate is reasonable	Person correlation	0.606*
	P-value (Sig)	0.000
A6: Interest rate at Islamic banks is lower cost compare to commercial banks	Person correlation	0.689*
	P-value (Sig)	0.000
A7: Islamic banks focus on financing production projects	Person correlation	0.555*
	P-value (Sig)	0.000
A8: Islamic banks asks for feasibility study for the project before final approval	Person correlation	0.425*
	P-value (Sig)	0.000
A9: Islamic banks is following up financing	Person correlation	0.337*

procedures from the request for financing to the payment currency	<b>P-value (Sig)</b>	0.003
<b>A10:</b> Islamic banks follow up for the financed projects contributes in its success	<b>Person correlation</b>	0.575*
	<b>P-value (Sig)</b>	0.000
<b>A11:</b> Islamic banks asks regularly for financial annual reports about the performance of the project	<b>Person correlation</b>	0.643*
	<b>P-value (Sig)</b>	0.000
<b>A12:</b> finance department in Islamic banks visit its clients regularly and provide them with the needed orientation and training	<b>Person correlation</b>	0.648*
	<b>P-value (Sig)</b>	0.000
<b>A13:</b> Islamic banks provide SMEs owners with innovative solutions for problems that face them	<b>Person correlation</b>	0.663*
	<b>P-value (Sig)</b>	0.000
<b>A14:</b> Palestine Islamic banks takes into consideration exceptional conditions and don't fine the owners for the delay of payments	<b>Person correlation</b>	0.439*
	<b>P-value (Sig)</b>	0.000
<b>A15:</b> Palestine Islamic banks offers specialized financing programs to support SMEs	<b>Person correlation</b>	0.432*
	<b>P-value (Sig)</b>	0.000
<b>A16:</b> The finance limits offered by Islamic banks is suitable to finance the project	<b>Person correlation</b>	0.442*
	<b>P-value (Sig)</b>	0.000
<b>Discriminant Validity = 0.538</b>		

*\*sig = significance at the 0.01*

Table (9) shows the correlation coefficient for each item of the dimension “**Role of Islamic banks in developing SMEs**”. The p-values are less than 0.05, so the correlation coefficients of this dimension are significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of this dimension are consistent and valid to measure what it was set for.

the value of DV indicator more than 0.50 and the value of DV indicator greater than 0.590, these values indicate that there is good validity of our data.

**Table (9):** correlation coefficient for each item of the dimension “Role of Islamic banks in developing SMEs”.

<b>Items</b>	<b>Test</b>	
<b>B1:</b> Islamic bank contributes in the increase of number of workers in the project	<b>Person correlation</b>	0.606*
	<b>P-value (Sig)</b>	0.000
<b>B2:</b> Islamic bank contributes in the increase of profits	<b>Person correlation</b>	0.596*
	<b>P-value (Sig)</b>	0.000
<b>B3:</b> Islamic bank contributes in increase of the project productivity	<b>Person correlation</b>	0.712*
	<b>P-value (Sig)</b>	0.000

<b>B4:</b> project success affects positively the salaries and living conditions of the workers	<b>Person correlation</b>	0.508*
	<b>P-value (Sig)</b>	0.000
<b>B5:</b> project success contributes in improving the quality of the local products and its ability to compete	<b>Person correlation</b>	0.592*
	<b>P-value (Sig)</b>	0.000
<b>B6:</b> The increase in the number of successful SMEs in Palestine contributes in the increase of national income	<b>Person correlation</b>	0.510*
	<b>P-value (Sig)</b>	0.000
<b>B7:</b> Islamic bank contributes in the improvement of the workers living conditions	<b>Person correlation</b>	0.668*
	<b>P-value (Sig)</b>	0.000
<b>B8:</b> Islamic bank reduces the cost of working capital	<b>Person correlation</b>	0.736*
	<b>P-value (Sig)</b>	0.000
<b>B9:</b> Islamic bank reduces the operation cost of the project	<b>Person correlation</b>	0.594*
	<b>P-value (Sig)</b>	0.000
<b>B10:</b> Islamic bank contributes in saving an encouraging environment for investment in SMEs	<b>Person correlation</b>	0.459*
	<b>P-value (Sig)</b>	0.000
<b>B11:</b> Islamic banks publish the success story of some SMEs to stimulate others to establish similar projects	<b>Person correlation</b>	0.358*
	<b>P-value (Sig)</b>	0.002
<b>B12:</b> Islamic bank contributes in the development and sustainability of the SMEs	<b>Person correlation</b>	0.535*
	<b>P-value (Sig)</b>	0.000
<b>B13:</b> Establishing specialized unit in financing SMEs in the bank contributes in the growth of the project.	<b>Person correlation</b>	0.551*
	<b>P-value (Sig)</b>	0.000
<b>Discriminant Validity = 0.590</b>		

*\*sig = significance at the 0.01*

Table (10) shows the correlation coefficient for each item of the dimension “**SMEs growth obstacles**”. The p-values are less than 0.05, so the correlation coefficients of this dimension are significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of this dimension are consistent and valid to measure what it was set for.

the value of DV indicator more than 0.50 and the value of DV indicator greater than 0.691, these values indicate that there is good validity of our data.

**Table (10):** Correlation Coefficient for Each Item of The Dimension “**SMEs growth obstacles**”.

<b>Items</b>	<b>Test</b>	
<b>C1:</b> Inadequate resources of specialized funding	<b>Person correlation</b>	0.642*
	<b>P-value (Sig)</b>	0.000
<b>C2:</b> Lack of legal and legislative environment to support SMEs	<b>Person correlation</b>	0.681*
	<b>P-value (Sig)</b>	0.000
<b>C3:</b> Raise of imported raw materials prices	<b>Person correlation</b>	0.695*
	<b>P-value (Sig)</b>	0.000

<b>C4:</b> The Palestinian government does not control the crossing and borders	<b>Person correlation</b>	0.750*
	<b>P-value (Sig)</b>	0.000
<b>C5:</b> Investors are concerned about political and security instability	<b>Person correlation</b>	0.568*
	<b>P-value (Sig)</b>	0.000
<b>C6:</b> Operation risks related to lack of qualified staff	<b>Person correlation</b>	0.695*
	<b>P-value (Sig)</b>	0.000
<b>C7:</b> Lack of long term strategic plan	<b>Person correlation</b>	0.756*
	<b>P-value (Sig)</b>	0.000
<b>C8:</b> Project inability to compete with other countries products due to weakness in the local infrastructure	<b>Person correlation</b>	0.809*
	<b>P-value (Sig)</b>	0.000
<b>C9:</b> Inadequate governmental facilities for SMEs	<b>Person correlation</b>	0.760*
	<b>P-value (Sig)</b>	0.000
<b>C10:</b> financial problems are the main reason hindering growth of SMEs.	<b>Person correlation</b>	0.468*
	<b>P-value (Sig)</b>	0.000
<b>Discriminant Validity = 0.691</b>		

*\*sig = significance at the 0.01*

As shown below in Table (11) shows the correlation coefficient for each item of the dimension “Recommending toward growth of SMEs”. The p-values are less than 0.05, so the correlation coefficients of this dimension are significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of this dimension are consistent and valid to measure what it was set for. the value of DV indicator more than 0.50 and the value of DV indicator greater than 0.777, these values indicate that there is good validity of our data.

**Table (11)** Correlation Coefficient for Each Item of The Dimension “Recommending Toward Growth of SMEs”.

<b>Items</b>	<b>Test</b>	
<b>D1:</b> Grant free grace periods to the project	<b>Person correlation</b>	0.782*
	<b>P-value (Sig)</b>	0.000
<b>D2:</b> Grant encouraging interest rates	<b>Person correlation</b>	0.813*
	<b>P-value (Sig)</b>	0.000
<b>D3:</b> Grant preferential collection rights to checks deposited for the project	<b>Person correlation</b>	0.861*
	<b>P-value (Sig)</b>	0.000
<b>D4:</b> Covering inward checks and give more time to cover	<b>Person correlation</b>	0.741*
	<b>P-value (Sig)</b>	0.000
<b>D5:</b> Reducing the cost of the financeincreases the number of SMEs and improve its chance to grow	<b>Person correlation</b>	0.640*
	<b>P-value (Sig)</b>	0.000



and develop

<b>D6:</b> reducing required guarantees to the minimum level	<b>Person correlation</b>	0.762*
	<b>P-value (Sig)</b>	0.000
<b>D7:</b> Establishing special units inside the chamber of commerce in all districts includes officers from all related ministries for licensing SMEs at one place	<b>Person correlation</b>	0.759*
	<b>P-value (Sig)</b>	0.000
<b>D8:</b> To develop a special national fund to guarantee project financing with the participation of all banks and PMA	<b>Person correlation</b>	0.844*
	<b>P-value (Sig)</b>	0.000
<b>D9:</b> The establishment of a special body concerned with the project sector in terms of ensuring the marketing of products at reasonable prices	<b>Person correlation</b>	0.764*
	<b>P-value (Sig)</b>	0.000
<b>Discriminant Validity = 0.777</b>		

*\*sig = significance at the 0.01*

### 3.9.2 Reliability

#### 3.7.2.1 Indicators Cronbach's Alpha and Guttman Split—Half and Composite

##### reliability

The establishment of unidimensional? is required for impactive use of Cronbach's alpha as the Cronbach alpha can underestimate the reliability of a multidimensional measure (Anderson & Gerbing, 1988). Cronbach's Alpha is widely used in social science and business for testing internal consistency of the survey items (Cronbach, 1951). The Cronbach alpha statistic indicates the level of reliability. Its values could range from 0.0 to 1.0 with a value closer to 1.0 indicating a higher level of reliability.

Table (12) shows the values of reliability indicators, where Cronbach's Alpha value ranged between 0.817 and 0.914, Guttman values for Split-Half reliability and ranged between 0.853 and 0.934.

As a conclusion, it is proven that the study questionnaire was valid, reliable and ready to be used for data collection. according to FA results Composite reliability was calculated, the

minimum (CR) was 0.858 above the critical level of 0.7 as well, indicating high reliability.

Thus, the questionnaires of the study are considered reliable.

**Table (12):** Indicators Cronbach's Alpha and Guttman Split—Half and Composite reliability.

Constructs	No. of item s	Cronbach Alpha	Guttman split-half	Composite reliability
<i>Finance issuance procedures</i>	16	0.830	0.899	0.858
<i>Role of Islamic finance in developing SMEs</i>	13	0.817	0.853	0.865
<i>SMEs growth obstacles</i>	10	0.869	0.913	0.899
<i>Recommending toward growth of SMEs</i>	9	0.914	0.934	0.932

### 3.10 The Normal distribution of the variables of the study

the statisticians use two types of the statistical tests to examine the hypotheses. the first type is the Parametric Tests and the second one is the Non-Parametric Tests. It is necessary when you use the Parametric Tests to use the normal distribution of the data that we want to use the statistical tests on. however, we use the Non-Parametric Tests as an alternative of the Parametric Tests in case that the normal distribution of data is not achieved which happens with small samples that are less than (30). while the samples that are more than (30) is allowed to give up the condition of using the normal distribution according to the Central Limit Theorem. in this study the Parametric test is used depending on the mentioned one reason above without going to verifying the requirement for the normal distribution of data.

### 3.11 Statistical techniques and Software

The researcher used Statistical Package for social science (SPSS) to analyze data by:

1. **Frequencies & Percentages** to describe personal information for the study sample.
2. **Mean** of Answers & **RII-Relative** Importance Index to identify to what extent the responses for items and the main dimensions of the study and **Standard Deviation** to show how much variation or dispersion exists from the mean.
3. **Cronbach's Alpha and Guttman split-half and Composite reliability:** to estimate the reliability of the questionnaire dimensions.
4. **Person correlation coefficients** to assess the construct validity and correlation coefficients between variables of the study.
5. **T-test for independent samples** to test the presence of statistically significant differences in the level of Agreement on variables due to gender.
6. **Analysis of Variance- ANOVA** to test the presence of statistically significant differences in the level of Agreement on variables of the study due to other Personal information factors.
7. **Regression analysis:** The purpose of regression analysis is to identify changes in independent variable that are significant predictors of changes in a dependent variable and in so doing, build a linear model that describes these relationships. How well the resulting model fits the population indicated by the coefficient of determination (i.e. R-square, R<sup>2</sup>). In this study.

## ***Chapter 4: Data Analysis and Dissuasion***

### **4.1 Introduction**

This chapter explains the stages of the data analysis process for the collected responses and presents the results of the analysis with explanations for these results. It also provides a clear idea of the personal information of respondents. In this chapter, the researcher uses an analytical tool: IBM SPSS Statistics 25; In order to determine the nature of the relationship between the variables of the study and test hypotheses of the study.

### **4.2 Descriptive analysis of the Project information**

The questionnaire data were collected from (74) respondent of SMEs in Palestine. Table 13 shows the Descriptive analysis of the Project information. Whereas the respondents distributed according to **Project Nature** distributed to (industry= 10.8%, commercial= 73.0%, agricultural= 5.4%, service= 6.8%, others= 4.1%). As for **Project Size** (Small (No. of workers 1-5= 43.2%, Medium (No. of workers 6-15 = 56.8%). While **Project Type** (Family= 28.4%, Private ownership= 52.7%, Solidarity partnership= 14.9%, Public shareholding co). As for **Project Capital** (Less than 10000 \$= 12.2%, From 10000- 20000 \$= 31.1%, More than 20000\$= 56.8%). While **No. of Workers** (Less than 5 workers= 37.8%, From 5-9 workers= 31.1%, From 10-14 workers= 17.6%, More than 15 workers= 13.5%). As for **Project Age** (less than 5 years= 29.7%, from 6-10 years = 31.1%, from 11-15 years= 16.2%, More than 15 years= 23.0%) While **Project annual sales** (less than 200000 \$= 33.8%, from 200 – less than 300000 \$= 25.7%, from 300 – less than 400000\$= 10.8%, from 400- less than 500000 \$= 8.1%, More than 500000 \$= 21.6%).

**Table (13)** Descriptive Analysis of The Project Information

<b>Variables</b>	<b>Number = 74</b>	<b>Percent (%)</b>
<b>Project Nature</b>		
Industry	8	10.8%
Commercial	54	73.0%
Agricultural	4	5.4%
Service	5	6.8%
Others	3	4.1%
<b>Project Size</b>		
Small (No. of workers 1-5)	32	43.2%
Medium (No. of workers 6-15)	42	56.8%
<b>Project Type</b>		
Family	21	28.4%
Private ownership	39	52.7%
sole proprietorship	11	14.9%
Public shareholding company	3	4.1%
<b>Project Capital</b>		
Less than 10000 \$	9	12.2%
From 10000- 20000 \$	23	31.1%
More than 20000\$	42	56.8%
<b>No. of Workers</b>		
Less than 5 workers	28	37.8%
From 5-9 workers	23	31.1%
From 10-14 workers	13	17.6%
More than 15 workers	10	13.5%
<b>Project Age</b>		
less than 5 years	22	29.7%
from 6-10 years	23	31.1%
from 11-15 years	12	16.2%
More than 15 years	17	23.0%
<b>Project annual sales</b>		
less than 200000 \$	25	33.8%
from 200 – less than 300000 \$	19	25.7%
from 300 – less than 400000\$	8	10.8%
from 400- less than 500000 \$	6	8.1%
More than 500000 \$	16	21.6%

### 4.3 Descriptive analysis of the purpose of financing.

The questionnaire data were collected from (74) respondent of SMEs in Palestine. Table 14 shows the Descriptive analysis of the Finance information. Whereas the respondents distributed according to **finance type** distributed to (Fixed Assets= 51.4%, working capital). As for **Purchase source** (local= 52.7%, Outside= 47.3%). While **financing period** (1-12 month= 37.8%, 13-36 month= 40.5%, 37-48 month= 8.1%, More than 48 months= 13.5%). As for **financing amount** (less than 20000 \$= 13.5%, From 20 – less than 50000 \$= 32.4%, From 50 – less than 100000 \$= 18.9%, More than 100000 \$= 35.1%). While **Guarantees** (Personal Guarantee= 24.3%, Mortgage= 36.5%, Cash collateral= 25.7%, Deposit of deferred checks= 13.5%).

**Table (14)** Descriptive Analysis of The Finance Information

Variables	Number = 74	Percent (%)
<b>Financetype</b>		
Fixed Assets	38	51.4%
working capital	36	48.6%
<b>Purchase source</b>		
Local	39	52.7%
Outside	35	47.3%
<b>financing period</b>		
1-12 month	28	37.8%
13-36 month	30	40.5%
37-48 month	6	8.1%
More than 48 months	10	13.5%
<b>financing amount</b>		
less than 20000 \$	10	13.5%
From 20 – less than 50000 \$	24	32.4%
From 50 – less than 100000 \$	14	18.9%
More than 100000 \$	26	35.1%
<b>Guarantees</b>		
Personal Guarantee	18	24.3%
Mortgage	27	36.5%
Cash collateral	19	25.7%
Deposit of deferred checks	10	13.5%

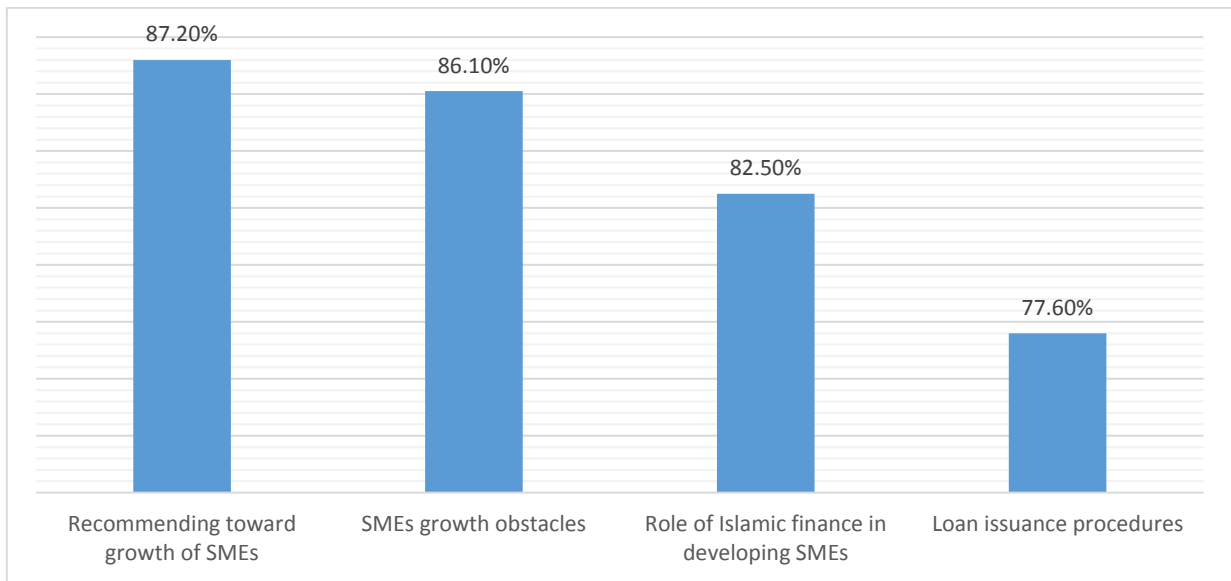
#### 4.4 Descriptive Statistics of financing issuance procedures

Table 15 shows the descriptive measurements of Variables of the Study construct, whereas the table has four Variables, the Variables which come first based on level of agreement is “**Role of Islamic finance in developing SMEs**” with ( $M = 4.12$   $RII = 82.5\%$ ,  $SD = 0.38$ ), the Variable which comes last “**Finance issuance procedures**” with ( $M = 3.88$ ,  $RII = 77.6\%$ ,  $SD = 0.44$ ). According to one sample T-test around the mid value (3), results indicate that there is positive significant difference between mean of answers on each Variables and (3) value, it Indicates that the mean of answers is greater than (3) which means that the point of view of respondent about Variables goes to positive agreement, and Figure (5): Descriptive measurements of Variables of the Study construct.

**Table (15)** Descriptive Measurements of Variables of The Study Construct.

Constructs	M	SD	RII	T
<i>Finance issuance procedures</i>	<b>3.88</b>	<b>0.44</b>	<b>77.6%</b>	<b>17.07*</b>
<i>Role of Islamic finance in developing SMEs</i>	<b>4.12</b>	<b>0.38</b>	<b>82.5%</b>	<b>25.72*</b>
<i>SMEs growth obstacles</i>	<b>4.30</b>	<b>0.55</b>	<b>86.1%</b>	<b>20.22*</b>
<i>Recommending toward growth of SMEs</i>	<b>4.36</b>	<b>0.57</b>	<b>87.2%</b>	<b>20.40*</b>

*Hint: M=Mean of answers, RII=Relative Importance Index  $((Mean/5) * 100\%)$ , SD=Standard Deviation., T = statistics of one sample T-test about (3), and \*sig = significance of test.*



**Figure (5):** Descriptive measurements of Variables of the Study construct

#### 4.4.1 Finance issuance procedures

Table 16 shows the descriptive measurements of items of Finance issuance procedures construct, whereas the table has sixteen items, the item which comes first based on level of agreement is “**A1: Islamic finance is the best choice for the project**” with ( $M = 4.24$  out of 5,  $RII = 84.9\%$ ,  $SD = 0.68$ ), the item which comes last based on agreement level is “**A2: Islamic Finance issuance procedures takes no long time**” With ( $M = 3.55$  out of 5,  $RII = 71.1\%$ ,  $SD = 0.98$ ). The total degree of agreement on Finance issuance procedures construct was high with ( $M = 3.88$  out of 5,  $RII = 77.6\%$ ,  $SD = 0.44$ ). According to one sample T-test around the mid value (3), results indicate that there is positive significant difference between mean of answers on each item and (3) value, it Indicates that the mean of answers is greater than (3) which means that the point of view of respondent about Finance issuance procedures goes to positive agreement.



**Table (16)** Descriptive Measurements of Items of Finance issuance Procedures.

	<b>Items</b>	<b>M</b>	<b>SD</b>	<b>RII</b>	<b>T</b>
<b>A1</b>	Islamic finance is the best choice for the project.	<b>4.24</b>	<b>0.68</b>	<b>84.9%</b>	<b>15.75*</b>
<b>A2</b>	Islamic Finance issuance procedures take no long time.	<b>3.55</b>	<b>0.98</b>	<b>71.1%</b>	<b>4.85*</b>
<b>A3</b>	Required guarantees are reasonable and can be obtained.	<b>3.88</b>	<b>0.70</b>	<b>77.6%</b>	<b>10.77*</b>
<b>A4</b>	Required guarantees from Islamic banks are more flexible than commercial banks.	<b>3.57</b>	<b>0.99</b>	<b>71.4%</b>	<b>4.91*</b>
<b>A5</b>	Interest rate is reasonable.	<b>3.81</b>	<b>0.85</b>	<b>76.2%</b>	<b>8.15*</b>
<b>A6</b>	Interest rate at Islamic banks is lower cost compare to commercial banks.	<b>3.65</b>	<b>1.07</b>	<b>73.0%</b>	<b>5.23*</b>
<b>A7</b>	Islamic banks focus on financing production projects.	<b>3.74</b>	<b>0.76</b>	<b>74.9%</b>	<b>8.41*</b>
<b>A8</b>	Islamic banks ask for feasibility study for the project before final approval.	<b>3.92</b>	<b>0.81</b>	<b>78.4%</b>	<b>9.79*</b>
<b>A9</b>	Islamic banks are following up financing procedures from the request for financing to the payment currency.	<b>4.15</b>	<b>0.63</b>	<b>83.0%</b>	<b>15.57*</b>
<b>A10</b>	Islamic banks follow up for the financed projects contributes in its success.	<b>4.15</b>	<b>0.72</b>	<b>83.0%</b>	<b>13.81*</b>
<b>A11</b>	Islamic banks ask regularly for financial annual reports about the performance of the protect.	<b>3.86</b>	<b>0.94</b>	<b>77.3%</b>	<b>7.90*</b>
<b>A12</b>	Finance department in Islamic banks visit its clients regularly and provide them with the needed orientation and training.	<b>3.73</b>	<b>0.90</b>	<b>74.6%</b>	<b>7.00*</b>
<b>A13</b>	Islamic banks provide SMEs owners with innovative solutions for problems that face them.	<b>3.59</b>	<b>0.92</b>	<b>71.9%</b>	<b>5.55*</b>
<b>A14</b>	Palestine Islamic bank takes into consideration exceptional conditions and don't fine the owners for the delay of payments.	<b>4.23</b>	<b>0.77</b>	<b>84.6%</b>	<b>13.76*</b>
<b>A15</b>	Palestine Islamic finance institutions offers specialized financing programs to support SMEs.	<b>3.95</b>	<b>0.70</b>	<b>78.9%</b>	<b>11.62*</b>
<b>A16</b>	The finance limits offered by Islamic banks is suitable to finance the project.	<b>4.01</b>	<b>0.75</b>	<b>80.3%</b>	<b>11.63*</b>
	<b>Overall</b>	<b>3.88</b>	<b>0.44</b>	<b>77.6%</b>	<b>17.07*</b>

**Hint:** *M*=Mean of answers, *RII*=Relative Importance Index  $((\text{Mean}/5) * 100\%)$ , *SD*=Standard Deviation., *T* = statistics of one sample T-test about (3), and \*sig = significance of test.

#### **4.4.2 Role of Islamic finance in developing SMEs**

Table 17 shows the descriptive measurements of items of Role of Islamic finance in developing SMEs construct, whereas the table has thirteen items. the item which comes first based on level of agreement is : *The increase in the number of successful SMEs in Palestine contributes in the increase of national income.*” with ( $M = 4.32$ ,  $RII = 86.5\%$ ,  $SD = 0.62$ ), the item which comes last based on agreement level is : *Islamic banks publish the success story of some SMEs to stimulate others to establish similar projects.*” With ( $M = 3.77$ ,  $RII = 75.4\%$ ,  $SD = 0.94$ ). The total degree of agreement on Role of Islamic finance in developing SMEs construct was high with ( $M = 4.12$ ,  $RII = 82.5\%$ ,  $SD = 0.38$ ). According to one sample T-test around the mid value (3), results indicate that there is positive significant difference between mean of answers on each item and (3) value, it Indicates that the mean of answers is greater than (3) which means that the point of view of respondent about Role of Islamic finance in developing SMEs goes to positive agreement.

**Table (17)** Descriptive Measurements of Items of Role of Islamic Finance in Developing SMEs.

	Items	M	SD	RII	T
<b>B1</b>	Islamic finance contributes to the increase of number of workers in the project.	<b>4.05</b>	<b>0.62</b>	<b>81.1%</b>	<b>14.69*</b>
<b>B2</b>	Islamic finance contributes to the increase of profits.	<b>4.05</b>	<b>0.57</b>	<b>81.1%</b>	<b>15.88*</b>
<b>B3</b>	Islamic finance contributes to increase of the project productivity.	<b>4.12</b>	<b>0.60</b>	<b>82.4%</b>	<b>16.19*</b>
<b>B4</b>	project success affects positively the salaries and living conditions of the workers.	<b>4.23</b>	<b>0.54</b>	<b>84.6%</b>	<b>19.67*</b>
<b>B5</b>	project success contributes in improving the quality of the local products and its ability to compete.	<b>4.15</b>	<b>0.75</b>	<b>83.0%</b>	<b>13.12*</b>
<b>B6</b>	The increase in the number of successful SMEs in Palestine contributes to the increase of national income.	<b>4.32</b>	<b>0.62</b>	<b>86.5%</b>	<b>18.32*</b>
<b>B7</b>	Islamic finance contributes to the improvement of the workers living conditions.	<b>4.26</b>	<b>0.66</b>	<b>85.1%</b>	<b>16.29*</b>
<b>B8</b>	Islamic finance reduces the cost of working capital.	<b>4.11</b>	<b>0.77</b>	<b>82.2%</b>	<b>12.40*</b>
<b>B9</b>	Islamic finance reduces the operation cost of the project.	<b>4.01</b>	<b>0.79</b>	<b>80.3%</b>	<b>11.10*</b>
<b>B10</b>	Islamic finance contributes to saving an encouraging environment for investment in SMEs.	<b>4.09</b>	<b>0.64</b>	<b>81.9%</b>	<b>14.60*</b>
<b>B11</b>	Islamic banks publish the success story of some SMEs to stimulate others to establish similar projects.	<b>3.77</b>	<b>0.94</b>	<b>75.4%</b>	<b>7.01*</b>
<b>B12</b>	Islamic finance contributes in the development and sustainability of the SMEs.	<b>4.26</b>	<b>0.55</b>	<b>85.1%</b>	<b>19.63*</b>
<b>B13</b>	Establishing specialized unit in financing SMEs in the bank contributes in the growth of the project.	<b>4.19</b>	<b>0.57</b>	<b>83.8%</b>	<b>18.08*</b>
	<b>Overall</b>	<b>4.12</b>	<b>0.38</b>	<b>82.5%</b>	<b>25.72*</b>

*Hint: M=Mean of answers, RII=Relative Importance Index ((Mean/5) \*100%), SD=Standard Deviation., T = statistics of one sample T-test about (3), and \*sig = significance of test.*

#### 4.4.3 SMEs growth obstacles

Table 18 shows the descriptive measurements of items of SMEs growth obstacles construct, whereas the table has ten items, the item which comes first based on level of agreement is “**C5: Investors are concerned about political and security instability.**” with ( $M = 4.59$   $RII = 91.9\%$ ,  $SD = 0.62$ ), the item which comes last based on agreement level is “**C6: Operation risks related to lack of qualified staff**” With ( $M = 4.01$ ,  $RII = 80.3\%$ ,  $SD = 1.05$ ). The total degree of agreement on Role of Islamic finance in developing SM SMEs growth obstacles Es construct was very high with ( $M = 4.30$ ,  $RII = 86.1\%$ ,  $SD = 0.55$ ). According to one sample T-test around the mid value (3), results indicate that there is positive significant difference between mean of answers on each item and (3) value, it Indicates that the mean of answers is greater than (3) which means that the point of view of respondent about SMEs growth obstacles goes to positive agreement.

**Table (18)** Descriptive Measurements of Items of SMEs growth obstacles.

	Items	M	SD	RII	T
<b>C1</b>	Inadequate resources of specialized funding.	<b>4.35</b>	<b>0.67</b>	<b>87.0%</b>	<b>17.32*</b>
<b>C2</b>	Lack of legal and legislative environment to support SMEs.	<b>4.27</b>	<b>0.76</b>	<b>85.4%</b>	<b>14.30*</b>
<b>C3</b>	Raise of imported raw materials prices.	<b>4.32</b>	<b>0.81</b>	<b>86.5%</b>	<b>14.01*</b>
<b>C4</b>	The Palestinian government does not control the crossing and borders.	<b>4.27</b>	<b>0.83</b>	<b>85.4%</b>	<b>13.12*</b>
<b>C5</b>	Investors are concerned about political and security instability.	<b>4.59</b>	<b>0.62</b>	<b>91.9%</b>	<b>22.21*</b>
<b>C6</b>	Operation risks related to lack of qualified staff.	<b>4.01</b>	<b>1.05</b>	<b>80.3%</b>	<b>8.27*</b>
<b>C7</b>	Lack of long term strategic plan.	<b>4.11</b>	<b>0.99</b>	<b>82.2%</b>	<b>9.65*</b>
<b>C8</b>	Project inability to compete with other countries products due to weakness in the local infrastructure.	<b>4.26</b>	<b>0.84</b>	<b>85.1%</b>	<b>12.79*</b>
<b>C9</b>	Inadequate governmental facilities for SMEs.	<b>4.47</b>	<b>0.67</b>	<b>89.5%</b>	<b>19.00*</b>
<b>C10</b>	financial problems are the main reason hindering growth of SMEs.	<b>4.36</b>	<b>0.82</b>	<b>87.3%</b>	<b>14.30*</b>
	<b>Overall</b>	<b>4.30</b>	<b>0.55</b>	<b>86.1%</b>	<b>20.22*</b>

*Hint: M=Mean of answers, RII=Relative Importance Index ((Mean/5) \*100%), SD=Standard Deviation., T = statistics of one sample T-test about (3), and \*sig = significance of test.*

#### 4.4.3 Recommending toward growth of SMEs

Table 19 shows the descriptive measurements of items of Recommending toward growth of SMEs construct, whereas the table has ten items, the item which comes first based on level of agreement is “**D5: number of SMEs and improve its chance to grow and develop**” with (M = 4.45, RII = 88.9%, SD = 0.67), the item which comes last based on agreement level is “**D6: reducing required guarantees to the minimum level**” With (M = 4.23, RII = 84.6%, SD = 0.87). The total degree of agreement on suggestions & recommendations for the growth of *SMEs* construct was very high with (M = 4.36, RII = 87.2%, SD = 0.57). According to one sample T-test around the mid value (3), results indicate that there is positive significant difference between mean of answers on each item and (3) value, it Indicates that the mean of answers is greater than (3) which means that the point of view of respondent about Recommending toward growth of SMEs goes to positive agreement.

**Table (19)** Descriptive Measurements of Items of Recommending Toward Growth of SMEs

	<b>Items</b>	<b>M</b>	<b>SD</b>	<b>RII</b>	<b>T</b>
<b>D1</b>	Grant free grace periods to the project.	<b>4.38</b>	<b>0.82</b>	<b>87.6%</b>	<b>14.41*</b>
<b>D2</b>	Grant encouraging interest rates.	<b>4.39</b>	<b>0.76</b>	<b>87.8%</b>	<b>15.85*</b>
<b>D3</b>	Grant preferential collection rights to checks deposited for the project.	<b>4.35</b>	<b>0.80</b>	<b>87.0%</b>	<b>14.50*</b>
<b>D4</b>	Covering inward checks and give more time to cover.	<b>4.34</b>	<b>0.76</b>	<b>86.8%</b>	<b>15.07*</b>
<b>D5</b>	Reducing the cost of the financeincreases the number of SMEs and improve its chance to grow and develop.	<b>4.45</b>	<b>0.67</b>	<b>88.9%</b>	<b>18.70*</b>
<b>D6</b>	reducing required guarantees to the minimum level.	<b>4.23</b>	<b>0.87</b>	<b>84.6%</b>	<b>12.17*</b>
<b>D7</b>	Establishing special units inside the chamber of commerce in all districts includes officers from all related ministries for licensing SMEs at one place.	<b>4.38</b>	<b>0.77</b>	<b>87.6%</b>	<b>15.37*</b>
<b>D8</b>	To develop a special national fund to guarantee project financing with the participation of all banks and PMA.	<b>4.39</b>	<b>0.66</b>	<b>87.8%</b>	<b>18.18*</b>
<b>D9</b>	The establishment of a special body concerned with the project sector in terms of ensuring the marketing of products at reasonable prices.	<b>4.35</b>	<b>0.56</b>	<b>87.0%</b>	<b>20.77*</b>
	<b>Overall</b>	<b>4.36</b>	<b>0.57</b>	<b>87.2%</b>	<b>20.40*</b>

*Hint: M=Mean of answers, RII=Relative Importance Index ((Mean/5) \*100%), SD=Standard Deviation., T = statistics of one sample T-test about (3), and \*sig = significance of test.*

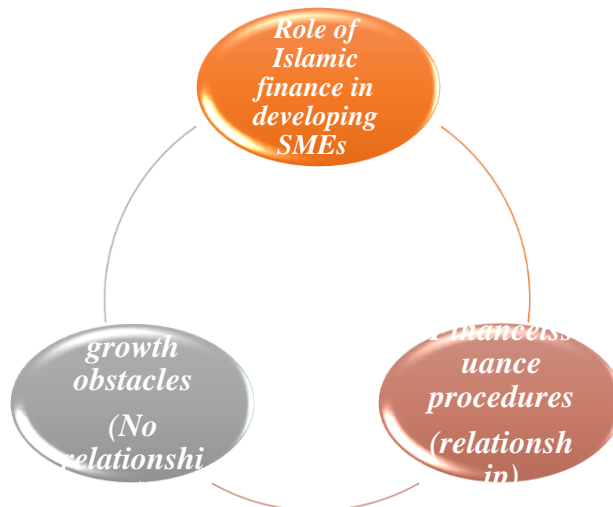
#### 4.5 Relationships between Variables of the study.

The following table (20) shows the results of Pearson correlation coefficients between variables of the study. the researcher calculated coefficients between all main construct and its subconstruct. Where we see through the results of a positive correlation between (Finance issuance procedures) and (Role of Islamic finance in developing SMEs), while There is no relationship between (SMEs growth obstacles) and (Role of Islamic finance in developing SMEs). Figure 6 shows correlation coefficient.

**Table (20) Show The Results of Pearson Correlation Coefficients Between Variables Of The Study**

<i>Role of Islamic finance in developing SMEs</i>		
<b>Finance issuance procedures</b>	<b>Person correlation</b>	<b>0.412**</b>
	<b>P-value (Sig)</b>	<b>0.000</b>
<b>SMEs growth obstacles</b>	<b>Correlation</b>	<b>0.015</b>
	<b>Sig.</b>	<b>0.899</b>

**\*\*Correlation is significant at the level 0.01 (2-tailed).**



**Figure 6 shows correlation coefficient between variables**

**4.6 Answer the fourth main question “*Is there a relationship between the methods and procedures applied in the Islamic banks in Palestine on the development of small and medium enterprises?*” Where this question was answered by a simple linear regression test**

The hypothesis test is validated by calculating the simple linear regression method. the impact of each variable of the independent variable that represent Dimension (**Finance issuance procedures**) on the dependent variable (**Role of Islamic finance in developing SMEs**) is studied by the simple regression. Statistically, the null hypothesis ( $H_0$ ) which assumes that there is no statistically significant effect against the alternative hypothesis ( $H_1$ ) that assumes there is a statistically significant effect and the judgement of the test result is based on the value of the calculated level of significance of the test (Sig). Where the null hypothesis is rejected and we go to the validity of the alternative hypothesis in case that the value of (Sig) is less than 0.05 so the test is significant which means there is a statistically significant effect. where the null hypothesis is accepted in case that the value of (Sig) is more than 0.05 which means there is no statistically significant effect.

The table (21) shows the results of the test of hypothesis and the main hypothesis to verify the existence of an effect of the independent variable (Finance issuance procedures) on the dependent variable that is represented in (Role of Islamic finance in developing SMEs).



**The table (21):** Shows the Results of The Test of The Effect Hypothesis by Calculating the Simple Linear Regression Method.

<i>Independent Variable</i>	<i>Regression Coefficients</i>		<i>Correlation Coefficient</i>	<i>Determination Coefficient</i>	<i>F</i>	<i>Sig</i>
	<i>A</i>	<i><math>\beta</math></i>	<i>R</i>	<i>R-square</i>		
<i>Finance issuance procedures</i>	<b>0.350</b>	<b>2.767</b>	<b>0.412</b>	<b>0.170</b>	<b>14.70</b>	<b>0.000</b>

#### 4.6.1 the main question:

**“There is positive significance impact of Finance issuance procedures on Role of Islamic finance in developing SMEs”**

Table 21 shows the result of the first hypothesis, which indicates that (i) The Correlation coefficient was (0.412) which indicates that there is positive significant relationship between Finance issuance procedures and Role of Islamic finance in developing SMEs. (ii) the results of simple regression to estimate the impact of Finance issuance procedures on Role of Islamic finance in developing SMEs, where the results show that the impact of Finance issuance procedures, are significant at 0.05 level ( $\beta = 2.767$ , *Sig.* = 0.000), and the coefficient of determination equal 0.170 which means that 17.0% of variance of Role of Islamic finance in developing SMEs had explained by Finance issuance procedures, and this percent is significant at 0.05 level because F-statistics are in significant at 0.05 where ( $F = 14.70$ , *Sig.* = 0.000), and this result supports the validity of first main hypothesis. So, we can conclude that ***“There is positive significance impact of Finance issuance procedures on Role of Islamic finance in developing SMEs”***

#### **4.7 Discuss the questions of the study**

##### ***4.7.1 The first main question: What is the nature of the development aspects of the contributions made by Islamic banks to SMEs in Palestine?***

The results of the analysis of the relative weights of the role of Islamic banks in the development of small and medium enterprises in Palestine indicate a positive trend by the owners of these projects towards the approval of the effective role of these banks in the development of small and medium enterprises in Palestine. Wherein trends analysis shows that 82.5% of the owners of these projects believe that Islamic banks have played an active role in the development of their projects. The contributions of these banks have focused on increasing the number of the successful projects, which led to the increase of Palestinian national income, which is confirmed by 86.5% of the owners of these projects. The Islamic banks have an active contribution in improving the living conditions of the employees in these projects through its important role in developing and increasing the productivity of these projects, as 82.4% of the owners confirmed that. Looking at the positive contributions of the Islamic banks and their reflection on the growth and development of small and medium enterprises in Palestine , These contributions tended to increase the number of employees in these projects and increase their profit rates, in addition to enabling these enterprises to develop the quality of their products and increase their competitiveness in the face of imported products, where the percentage contribution of these banks are 81.1%, 81.1% and 83% according to the trends of the owners of these projects. Finally, Islamic finance had a significant impact on reducing the operational costs of these projects, which is confirmed by 80.3% of the owners. The researcher believes that

positive trends in evaluating the contribution of Islamic banks of the development of small and medium enterprises in Palestine stem from the congruence of the needs of the owners of these projects and the nature of Islamic banking trends that focus heavily on the funding. These projects have logical and reasonable procedures and conditions when compared to commercial banks that focus on funding to obtain risk rates based on the principle of guarantees provided in advance, which provides coverage of any types of risks expected without taking into account the participation in the risks or profits from those projects. The alternative formula adopted by Islamic banks, whereby Islamic financing is granted to these projects based on the reliability of the project and its expected feasibility which the bank is studying carefully and orienting investors and owners of these projects to make any amendment may limit the risk of operation and ensure the success of the project and its ability to cover the bank commitments. These results correspond to the results of economic studies that are specialized in the role of Islamic banks in the economic development, which indicated that there is a real positive contribution of these banks in developing small and medium enterprises. Whereas these results correspond with the following studies of (Ayyash and Manasra, 2016) (Al-Sawy and Ali, 2015) (Al-Juifl, 2013), which answer the second main question of the study.

***4.7.2 The second main question: What is the nature of financing needs of small and medium-sized enterprises in Palestine?***

The financing needs of small and medium-sized enterprises owners are the important basis that encourages them to resort to these banks and believe in their ability to develop their projects. The results of the analysis of development proposals submitted by the owners of these projects indicate that the most important financing needs to be represented in giving encouraging periods to start-up projects that the bank gives the project owner a good period to achieve the appropriate revenues at the beginning of the activity. After that period, the payment of the funds due to the banks should start. Wherein 87.6% of the owners need these procedures. As the owners consider granting of usury interest rates and the granting of rights to the preferential collection of checks are very important to them, as 87.8% and 87% of them confirmed that. They also consider the coverage of received checks, not to be refused and the giving them an appropriate period to cover are more important needs related to the aspects and procedures that they need, which is confirmed by 86.8%. Finally, the reduction of required guarantees to grant funding to the minimum express the trends of the owners of these projects, which is confirmed by 84.6% of them. The demands and needs of investors in small and medium-sized enterprises are logical and are based on the realities of the Palestinian territories. Wherein Palestine is witnessing a series of economic and political disturbances that led to the inability of small and medium-sized enterprises to ensure the real commitment to meet some of the financial requirements of the banks, especially that the unexpected events and disturbances that challenge projects such as cases of emergency closures of crossings or cases of repeated wars or those related to cases of

liquidity shortages due to repeated Israeli actions, which make the demands of owners are realistic. Therefore, the banks have to deal with those circumstances that are characterized by the general nature and affect most of the components of the economic system (most important small and medium enterprises) the results match the following studies of (Shami, 2016) (Al Dmagh, 2010) (Mashti, 2011)

***4.7.3 The third main question: What is the nature of the obstacles that prevent the development of small and medium enterprises in Palestine?***

The results indicate that investors' fear of political and economic instability in the Palestinian territories is the most important obstacle to the development and growth of small and medium-sized enterprises, as 91.1% of the owners of small and medium enterprises confirmed that. Wherein the owners' view is compatible with the economic theories of investment decisions, where the specialized economic literature indicates that the most important factors that determine investment decisions are based mainly on investor confidence and expectations, whereas the economic expectation is optimistic about the indicators of the economy In the countries of the world, the main determinant of these decisions, in the presence of cases of fear of investors and uncertainty about political stability and economic in any potential area of tension and conflict, this leads them to refrain from investment and development in different economic sectors, which corresponds to the vision of the owners of small and medium enterprises in Palestine That the situations of unrest and political instability are the most important challenges facing the development of their own projects. The second challenge and the most important policy of the development of small and medium enterprises in Palestine is the failure of the government

to provide any Facilities that encourage the growth and development of small and medium enterprises in Palestine, which is confirmed by 89.5% of the owners of those projects. Moreover, the operational challenges represent the most important challenges of giving funds where 87.3% of the owners of these projects consider the financial problems as the main factor of hindering the growth of SMEs. The owners of these projects focus on their view of the financial problems that hinder growth in the lack of specialized sources of finance to stimulate the growth of their projects, which is confirmed by 87% of them. SME owners view is compatible with the results of most of the specialized studies that consider the weakness of the policies directed towards the development of SMEs and the lack of access to sources of funding and the lack of adequate funding is the main obstacle of projects growth. The results match the following studies. (Mekdad and Halas, 2005), Abu Gazar (2006), Al Dmagh (2010), and Mahtah (2011).

***4.7.4 The fourth question: Is there a relationship between the methods and procedures applied in the Islamic banks in Palestine and the development of small and medium enterprises?***

Through the results shown in the correlation matrix table related to the questionnaire Dimensions, it is clear that there is a strong positive relationship between the procedures of the implementation of Islamic funding and the development of small and medium enterprises in Palestine, Which indicates that the procedures of the implementation of Islamic funding applied within the banks stimulate the development of the small and medium enterprises in Palestine, where the rate of correlation between them is 41.2% with an influential relationship. The correlation between the procedures of the implementation of

Islamic funding and the development of small and medium enterprises in Palestine stems from the flexibility of these procedures and their sensitivity to the specific circumstances of these projects. The procedures are characterized by their complexity and suitability to the potential and capabilities of small and medium-sized enterprises. Where the results of the analysis of the paragraphs of the axis that are related to the procedures of the granting of Islamic finance indicate that there is flexibility and ease of access to finance from Islamic banks, as 71.1% of the owners of those projects consider that getting a finance from the Islamic Bank does not take much time compared to traditional banks. As well as the required guarantees by Islamic banks to obtain funding is considered reasonable and verifiable, which 77.6% of the owners agree with. As these guarantees are more flexible than those required by the commercial banks in the Palestinian territories. More importantly, the follow-up processes that Islamic banks do after granting funding various projects, which aim to ensure the success of these projects and contribute actively to the development of these projects, which 83% of the owners of these projects agreed on. In addition, the Islamic banks' consideration of the circumstances and challenges that may face those projects and the failure to impose fines on some cases that may result in cases of non-commitment to pay on time is conducive to the development and sustainability of those projects. Which is confirmed by 84.6% of the owners of those projects. The nature of the positive relationship between the procedures and implementation of granting Islamic fund and the development of small and medium enterprises in Palestine can be explained by the positive behavior of Islamic banks towards customers and applicants for financing from small and medium-sized entrepreneurs. whether it is related to the decrease of the administrative bureaucracy in the transactions, or the required flexibility by those banks in

the guarantees and their keenness to work on the principle of partnership with those projects, which makes them more interested in the success of these projects considering the growth and development as a part of the growth and evolution of Islamic banking work. these results comply with these studies of (2016), Tammam (2015), Yussuf (2017), Matarneh & Almanaseer (2015) and Mumani (2014).



## **Chapter 5: Conclusion and Recommendations**

### **5.1 Introduction**

The theoretical study stated the great role that the developing countries rely on in promoting the economic development. Whereas the decision makers are increasingly interested in the small and medium enterprises because of their effective contribution in maximizing the development indicators and alleviating the social and economic dilemmas in these countries specifically the unemployment and the poverty. The reason that makes it the main dimension in directing the developmental policies in various countries of the world. Some experiments of various countries approved that small and medium enterprises are the key cornerstone in leading the development process in these countries, Perhaps the Japanese experience was the important evidence of that. Despite the great role that these enterprises play in the economic system, there are many challenges that hinder the development process. Whereas the problem of getting financing represents the big challenge for these projects in many countries. Despite the great role that banks play (Islamic, commercial and competent). This problem is still an obstacle to its development, especially in Palestine. Through studying all the aspects of these projects or the obstacles and relating it to the Islamic banks' role in developing the projects, it is clear that there is an effective contribution of the banks in the process of developing these projects despite the challenges that face the economic system in Palestine considering the Palestinian work environment. This study showed a set of results these are:

## 5.2 conclusion

1. There is a strong positive relationship between the Islamic finance procedures and the development of small and medium enterprises in Palestine, whereas the correlation coefficient was significant at ( $\alpha \leq 0.05$ ), the correlation coefficient was 41.2%. Which indicates that the applied procedures of granting Islamic fund in the banks stimulate the development processes of small and medium enterprises in Palestine.
2. The positive relationships between the Islamic finance procedures and the development of small and medium enterprises in Palestine stem from the flexibly applied procedures in the Islamic banks and its attention to the special circumstances of these enterprises. Where these procedures are characterized by simplicity and suitability to the small and medium enterprises' owners' abilities concerning the guarantees and the reasonable profit margin that the banks require compared to the commercial banks in the Palestinian territories.
3. The Islamic banks that operate in Palestine have a great effective role in developing the small and medium enterprises. This role related to these enterprises success in Palestine by increasing the rate of productivity, profits, size of sales and decreasing the operational costs, which was confirmed by the owners of small and medium enterprises with a percent rate of 82.5%. The success of these enterprises is related directly to the periodic following up process that is conducted by the Islamic banks focusing on the partnership in success. If the enterprises succeed in reaching their goals, it will be a great success to the Islamic banks in granting finance. 83% of enterprises owners consider the procedures of following up the enterprises as a guarantee of success.

4. Getting a suitable payback period and encouraging profits rates are the most important requirements that the SMEs owners ask from the Islamic banks, 87.6% confirmed that. As well as declining the required guarantees by the Islamic banks in Palestine to stimulate the development rate of SMEs, 84.6% of the owners confirmed that.
5. The SMEs in Palestine experience a set of challenges that hinder the work and the development of these enterprises at the overall level. These challenges are represented in the investors' fear of the political and economic instability that the Palestinian territories face, 91.1% of the SMEs owners confirmed that. In addition to, the absence of the government role in providing facilities to stimulate the development of SMEs in Palestine. 89.5% of the SMEs owners confirmed that.
6. The provision of finance is one of the most important challenges facing the development of small and medium enterprises in Palestine at the operational level, where 87.3% of the owners of these enterprises consider that financial problem is the main factor that hinders the growth of their projects. The owners of these enterprises focus on the financial problem that hinders the development process, which is represented by the lack of finance, sources to encourage their projects, 87% of them confirmed that.
7. The results showed that the use of the granted financing to the small and medium enterprises in Palestine was mainly directed to finance fixed assets and working capital. Where 51.4% used the finance in fixed assets and 48.6% used finance for working capital. The mortgage is the most important source of guarantees provided to Islamic banks to obtain fund as 36.5% of the owners of those projects confirmed this, cash insurance ranked as the second in terms of guarantees provided to Islamic banks

by 25.7%. Finally, personal guarantees with 24.3% and deferred checks with a percent of 13.5%.

### **5.3 Recommendations**

**The study recommends a set of recommendations:**

1. The necessity of forming a formal and administrative framework that includes representatives of small and medium enterprises in order to meet their demands and practice pressure to obtain real opportunities to enable them to work effectively and not only a general cover such as the Association of Businessmen and the General Union of Palestinian Industries to represent this sector. Where the concentration is only on the active projects that take the nature of large projects at the expense of the rights and demands of small and medium-sized enterprises.
2. The necessity of inserting clear items to support small and medium-sized enterprises within the development plans at the national level as these projects are the main and important component of the Palestinian economic system, in addition to activating the application of the trends at the level of executive programs in the governmental non-governmental institutions at the executive level.
3. The study recommends directing a part of the provided funds by the donor countries to establish lending institutions to SME in Palestine whose main task is to grant funding to these institutions with relatively long payback periods based on an in-depth economic study and methodological guidance to ensure the success of these projects.
4. The Islamic banks have to work on activating a various set of Islamic finance formulas that are used to be in Palestine. In addition, they do not have to depend on the common

formulas as the usury. These banks must expand its work by focusing on more important formulas as Mudaraba.

5. Islamic banks must review the required guarantees from the SMEs to apply for funding so that funding will be granted to the project without resorting to other guarantees that may be difficult for the grant seekers. This requires the bank to work on the principle of real partnership with those projects and stimulate the banks to provide all facilities to ensure the success of the project to meet its financial obligations to those banks.
6. Islamic banks must adhere to the principle of operational flexibility. This principle is based on the restructuring of funding in the case of project failure in term of urgent reasons imposed by the external environment in the Palestinian territories. These banks take into consideration the unexpected external factors that are imposed on these projects. Which may be as an obstacle either to provide repayments. The facilitations are represented in considering the unstable urgent periods as temporary periods without Imposing fines or benefits on the owners of those projects so that the owners of these projects can overcome those periods and rearrange their internal conditions to allow them to continue the course of action and to meet the obligations.
7. The necessity of updating Islamic banking laws in Palestine. These laws enable Islamic banks to activate various forms of Islamic financing that are not used in Palestine and form an important cover for the entry of various Islamic banks and institutions to the Palestinian Islamic financial labor market.
8. The necessity of coordinating the work between Islamic banks and other parties involved in financing the small and medium enterprises, whether they belong to civil society organizations or the private sector in order to provide a unified database of the

beneficiaries of the funding to ensure that the largest number of owners of projects get benefit from financing institutions.

9. There is an urgent and necessary need to provide qualified areas so that projects can benefit from the provided advantages in those areas to work efficiently. As it is assumed that, the municipalities must have an important role in the rehabilitation of areas within the boundaries of those municipalities whose main objective is to organize the work of this important sector through the provision of supporting logistical facilities with a suitable cost.

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## ***Appendix A***

### **Questionnaire in English**

#### **the role of Islamic finance in the development of SMEs in Palestine**

**Dears:**

This questioner is designed to measure the role of the Islamic finance in the development of the SMEs in Palestine under the supervision of **Dr. Mohammad Abu sharbeh**, all the obtained information's will be confidential and will be used exclusively for the master degree research in the Arab American University.

Thanking your cooperation

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Please put (x) sign in the answer box you select

**Part one:**

**Project information:**

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<b>Project Nature</b>	<b>Industry</b> (   )	<b>Commercial</b> (   )	<b>Agriculture</b> (   )	<b>Services</b> (   )	<b>Others</b> (   )
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<b>Project Size</b>	(   )	(   )
	Small ( no. of workers 1-5)	Medium ( no. of workers 6-15)

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<b>Project Type</b>	(   )	(   )	(   )	(   )
	Family	Private ownership	Solidarity partnership	Public shareholding

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					co
<b>Project Capital</b>	( ) Less than 10000 \$	( ) From 10000- 20000 \$	( ) More than 20000\$		
<b>No. of Workers</b>	( ) Less than 5 workers	( ) From 5-9 workers	( ) From 10-14 workers	( ) More than 15 workers	
<b>Project Age</b>	( ) less than 5 years	( ) from 6-10 years	( ) from 11- 15 years	More than 15 years	
<b>Project annual sales</b>	( ) less than 200000 \$	( ) from 200 – less than 300000 \$	( ) from 300 – less than 400000\$	( ) from 400- less than 500000 \$	More than 500000 \$

### Financeinformation:

Please put (x) sign in the answer box you select

<b>Financetype</b>	( ) Fixed Assets	( ) working capital		
<b>Purchase source</b>	( ) local	( ) outside		
<b>Financeperiod</b>	( ) 1-12 month	( ) 13-36 month	( ) 37-48 month	More than 48 month
<b>Financeamount</b>	( ) less than 20000 \$	( ) from 20 – less than 50000 \$	( ) from 50 – less than 100000 \$	( ) more than 100000 \$
<b>Guarantees</b>	( ) personal guarantee	( ) mortgage	( ) cash collateral	( ) deposit of deferred

checks

**Part 2: Granting finance procedures:**

Statement	5	4	3	2	1
<b>Finance issuance procedures</b>					
1. Islamic finance is the best choice for the project					
2. Islamic Finance issuance procedures takes no long time					
3..Required guarantees are reasonable and can be obtained					
4.Required guarantees from Islamic banks are more flexible than commercial banks					
5.Interest rate is reasonable					
6.Interest rate at Islamic banks is lower cost compare to commercial banks					
7.Islamic banks focus on financing production projects					
8.Islamic banks asks for feasibility study for the project before final approval					
9.Islamic banks is following up financing procedures from the request for financing to the payment currency					
10.Islamic banks follow up for the financed projects contributes in its success					
11. Islamic banks asks regularly for financial annual reports about the performance of the proheect					
12.Credit department in Islamic banks visit its clients regularly and provide them with the needed orientation and training					
13. Islamic finance institutions provide SMEs owners with innovative solutions for problems that face them					
14. Palestine Islamic financing institutions takes into consideration exceptional conditions and don't fine the owners for the delay of payments					
15.Palestine Islamic finance institutions offers specialized financing programs to support SMEs					
16.The finance limits offered by Islamic banks is suitable to finance the project					

<b>Part 3: Role of Islamic finance in developing SME</b>					
17. Islamic finance contributes in the increase of number of workers in the project					
18 . Islamic finance contributes in the increase of profits					
19. Islamic finance contributes in increase of the project productivity					
20. project success affects positively the salaries and living conditions of the workers					
21. project success contributes in improving the quality of the local products and its ability to compet					
22. The increase in the number of successful SMEs in Palestine contributes in the increase of national income					
23. Islamic finance contributes in the improvement of the workers living conditions					
24. Islamic finance reduces the cost of working capital					
25. Islamic finance reduces the operation cost of the project					
26. Islamic finance contributes in saving an encouraging environment for investment in SMEs					
27. Islamic finance institutions publish the success story of some SMEs to stimulate others to establish similar projects					
28. Islamic finance contributes in the development and sustainability of the SMEs					
29. Establishing specialized unit in financing SMEs in the bank contributes in the growth of the project.					
<b>Part 4: SMEs growth obstacles</b>					
30. Inadequate resources of specialized funding					
31. Lack of legal and legislative environment to support SMEs					
32. Raise of imported raw materials prices					
33. The Palestinian government does not control the crossing and borders					
34. Investors are concerned about political and security instability					

35. Operation risks related to lack of qualified staff					
36. Lack of long term strategic plan					
37. Project inability to compete with other countries products due to weakness in the local infrastructure					
38. Inadequate governmental facilities for SMEs					
39. financial problems is the main reason hindering growth of SMEs.					
<b>Part 5: suggestions &amp; recommendations for the growth of SMEs:</b>					
40.. Grant free grace periods to the project					
41. Grant encouraging interest rates					
42. Grant preferential collection rights to checks deposited for the project					
43. Covering inward checks and give more time to cover					
44. Reducing the cost of the financeincreases the number of SMEs and improve its chance to grow and develop					
45. reducing required guarantees to the minimum level					
46. Establishing special units inside the chamber of commerce in all districts includes officers from all related ministries for licensing SMEs at one place					
47. To develop a special national fund to guarantee project financing with the participation of all banks and PMA					
48. The establishment of a special body concerned with the project sector in terms of ensuring the marketing of products at reasonable prices					

## Appendix B

### اسماء اصحاب المشاريع الذين قاموا بتعبئة الاستبيان

رقم الاستبيان	المدينة	اسم المشروع
1	العيزرية	داود يحيى فرعون
2	العيزرية	خليل حربي عجرة
3	الخليل الحرس	شركة القواسمي لاستيراد السيارات
4	الخليل الحرس	شركة تكسي القيسي
5	الخليل الحرس	شركة الكفراوي
6	الخليل الحرس	مأمون السيوري
7	الخليل الحرس	شركة الصياد للمقاولات
8	قلقيلية	شركة اشهد للتجارة
9	قلقيلية	شركة الحمل
10	قلقيلية	شركة العلان لتجاره السيارات
11	قلقيلية	ايداد داوود
12	قلقيلية	سمير مرعي
13	قلقيلية	طاهر عوده
14	قلقيلية	شركة ارت لايين
15	قلقيلية	شركة عبر البحار
16	قلقيلية	شركة كزمار لتجاره الاخشاب
17	البيره	شركة الناصره للباطون
18	البيره	شركة الزهراء للمواد الغذائية
19	البيره	شركة الكسواني
20	البيره	عبد الجابر عبيد
21	البيره	شركة الشيخ الطريفي
22	بيت لحم	شركة كيو اس للاستيراد والتصدير
23	بيت لحم	شركة ميلانو للالمنيوم
24	بيت لحم	شركة الكرمل
25	بيت لحم	شركة الحوساني للجرانيت

26	بيت لحم	شركة السوق الفلسطيني
27	طولكرم	عمار عليمي
28	طولكرم	سائد طوير
29	طولكرم	نضال عبد الغني
30	طولكرم	رضوان حمزه واخوانه
31	خان يونس	شركة بوازل الوفاق
32	خان يونس	شركة مهند شبير
33	خان يونس	شركة نظمي عبد الهادي
34	خان يونس	شركة الشواف
35	خان يونس	شركة ولاء الاندلس
36	الخليل	شركة ابو تبايه للبلاستيك
37	الخليل	شركة النور للمجوهرات ابلال سنقرط
38	الخليل	شركة الاخلاص الزراعية
39	الخليل	ايداء محفوظ للوازم النجارين
40	الخليل	مشغل نور عاشور للالمنيوم
41	غزه	التركمانى سنتر
42	غزه	فلاش تيك
43	جنين	شركة الاصاله لتجارة السيارات
44	جنين	فادي دعبيس
45	جنين	محمد عزام
46	جنين	عادل عويس
47	جنين	مفيد عويس
48	جنين	معن خلف
49	جنين	حسين مناصره
50	جنين	فؤاد جرار
51	جنين	يزيد ملحيس
52	جنين	احمد فراج
53	النصيرات اغزه	شركة سعد ابو كميل للتجاره العامه
54	النصيرات اغزه	شركة الحساينه لمعدات الاطفاء
55	النصيرات اغزه	شركة زكريا طالب حجازي

56	النصيرات اغزه	شركة علاء الخزندار للتجارة العامه
57	النصيرات اغزه	شركة محمد محمود الشوا وشركاه
58	يطا	سامي عدرة وجبرين عدرة
59	يطا	محمد واحمد حريزات
60	يطا	انس ربحي
61	يطا	شركة اليتيم لمواد البناء
62	عتيل	شركة الاسعد للالمنيوم
63	عتيل	الشركة التركية الفلسطينية
64	عتيل	محلات دقه للاخشاب
65	عتيل	محلات شديد للمعدات الثقيلة
66	رام الله	ماهر الخواجا للالبسة
67	رام الله	شركة العويسي
68	رام الله	شركة البنان لتجاره الاعلاف
69	رام الله	شركة النور للاكسسوارات الخلوية
70	نابلس	سفيان موسى
71	نابلس	ياسر معالي دردوق
72	نابلس	علاء زبيدية
73	نابلس	خليفه حماد
74	نابلس	عدنان التمام
75	قلقيلية	معاذ رداد <b>املغاه</b>

## ملخص

هدفت الدراسة الحالية الى ابراز دور التمويل الإسلامي في تنمية وتطوير المشاريع الصغيرة والمتوسطة في فلسطين من خلال تحليل لطبيعة وواجه الأساليب والإجراءات المطبقة في المصارف الإسلامية لتمويل هذه المشاريع، مع التركيز على فاعلية الصيغ المتنوعة للتمويل الإسلامي ومدى استخدامها من قبل المصارف الإسلامية العاملة في فلسطين لأغراض منح التمويل للمشاريع الصغيرة والمتوسطة، كما هدفت أيضا الى تحديد اهم الاحتياجات المالية لهذه المشاريع والصعوبات والمعوقات التي تواجهها هذه المشاريع في تجنيد التمويل الخاص بعملياتها وانشطتها المتنوعة.

ولتحقيق هذه الأهداف فقد استخدمت الدراسة المنهج الوصفي التحليلي لدراسة الظاهرة، وقد تم الاعتماد على المصادر الثانوية والاولية في جمع البيانات، حيث شملت المصادر الثانوية الكتب والدوريات والأبحاث المنشورة وغير المنشورة والتقارير المتنوعة ذات الصلة بالموضوع البحثي، اما المصادر الأولية فقد تم الاعتماد على أداة الاستبيان لجمع البيانات، حيث تمثل مجتمع الدراسة بملاك المشاريع الصغيرة والمتوسطة في فلسطين، حيث تم توزيع 74 استمارة استبيان وزعت بواقع 50 استمارة في الضفة الغربية و24 استمارة في قطاع غزة حيث تم استرداد جميع هذه الاستمارات واستخدمت لأغراض التحليل.

وقد توصلت الدراسة الى مجموعة من النتائج التي تمثلت في وجود دور فاعل للمصارف الإسلامية في تنمية وتطوير المشاريع الصغيرة والمتوسطة في فلسطين، وقد تجسد هذا الدور من خلال العلاقة القوية بين اجراءات منح وتنفيذ التمويل الإسلامي وتنمية المشاريع الصغيرة والمتوسطة في فلسطين، كما أظهرت النتائج الى ان المصارف الإسلامية تعتمد على أسلوب المراجعة في تمويل هذه المشاريع باعتباره اقل صيغ التمويل مخاطرة، كما خلصت الدراسة الى وجود مجموعة من المعوقات التي تحد من تطور ونمو هذه المشاريع في فلسطين حيث تمثلت اهم هذه المعوقات في حالة عدم الاستقرار السياسي والاقتصادي، بالإضافة الى إشكالات الحصول على التمويل من المصارف التي تتطلب حجم ضمانات مرتفع لا يتناسب وقدرة هذه المشاريع على توفيرها.

وقد اوصت الدراسة بضرورة قيام المصارف الإسلامية بتوسيع عملها بحيث تركز على صيغ أخرى ذات أهمية واولوية لتلك المشاريع كصيغ المشاركة المضاربة، كما اوصت بضرورة توفير مناطق مؤهلة داخل حدود البلديات لعمل تلك المشاريع بحيث يتم توفير التسهيلات اللوجستية وتنظيم عمل هذا القطاع داخل هذه المناطق.