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THE SUCCESS FACTOR FOR ISLAMIC TO FINANCE SMALL AND MEDIUM PROJECTS

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ABSTRACT

This paper aims to review the importance of small and medium projects in achieving economic and social development. This result of this study will help to identify the success factors required to finance small and medium projects by Islamic Banks. The study defined the Islamic banks and the principles of small and medium projects in the economies of some countries. In addition to that the study discussed the classification of these projects according to the criteria of employment rate based on economic development, also identifying the nature of these projects and selection criteria. Finally the study discussed the principles of Islamic finance and its main goals, selection standards and criteria to small and medium projects, and the Islamic finance techniques used by Islamic banks to finance these projects.

Keywords: Islamic Banks, Small and Medium Projects, Islamic Finance Techniques, Success Factors of Islamic Finance

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INTRODUCTION

Islamic banks attempt to represent and apply the principles of Islamic finance techniques and economics in the community. Islamic finance is a finance system based on Islamic faith values and legitimacy rules that deny the worshiping of money and dealing with Riba, as Almighty Allah says: (Allah has permitted trading and forbidden Riba) (Surat al-Baqarah: verse 275). Islamic banks directed their banking activities towards Islamic law and Sharia to search for techniques to employ money based on Islamic principles. Today, there are many finance techniques that are considered appropriate to the nature of the financial deals of Islamic banks, and play an important role in their development process, which are considered of great importance for developing countries, especially when finance small and medium projects. But there are several factors required to achieve success by these banks mainly in implementing Islamic finance to small and medium projects. This paper will explain the success factors of Islamic banks to finance small and medium projects.

THE PRINCIPLES OF ISIAMIC BANKS

Islamic banks are institutions which attract unemployed equity capital and they gives depositors a halal profit through safe business and economic development that provide return and true interest to all shareholders and investors and act as an intermediary between the owner of capital and investor so the money will grows without suspicious of non-halal growing and everyone gets his right according to Islamic law. Therefore, Islamic Banks should be reliable and committed to the provisions of Islamic law and Sharia (al-Hiti, 2008).

Islamic banks are these banks that are devoted to apply Islamic law in general banking activities and investment projects through applying the concept of financial intermediation which is based on the principle of fair participation in profit and loss. The volume of Islamic bank works worldwide according to statistics published in 2013 are 500 banks in 60 countries, and the balance of funding Islamic banks reached trillion and 200$ billion, where the number of conventional banks offering Islamic products equal 330 banks, and finance balance in Islamic banks equal trillion and 200$ billion, and the number of conventional banks which are offering Islamic products are 330 banks and financing balance of those banks are 300$ billion according to estimates company of Ernst & Young (which is the one of the largest professional companies in the world and it consider the seventh largest company in the United States in 2007), the volume of Islamic banking industry in March 2013 equal 1.5$ trillion, while in 2015 to 2 trillion and 800 Islamic bank (al-Beltagy, 2013).

SMALL AND MEDIUM PROJECTS

The Small and medium projects are playing an important role in the process of economic and social development in all countries of the world, mainly because of their role in employment, where small and medium projects provide a wide job opportunities due to the small capital investment, and they contribute to solving the problem of unemployment and spread of poverty as well as maximizing the income, also support the economic growth in the country.

3.1 THE DEFINITION OF SMALL AND MEDIUM PROJECTS

The concept of small projects raises the controversy between economists, so in fact there is no common definition of small project that can apply to all projects in all areas and under all circumstances, because of the difficult estimation on small, medium, or large project which are classified and governed by a several regulations and standards which are varying between countries, also it should be taken into account the conditions for running a project and the environment surrounding that project (Abu al-Nur ,1993), while the program of United Nations Trade and Development "UNCTAD" defines small projects as projects which employs from 20-100 workers or less, and defines medium project which employs 100-500 workers, while the European Union defines a small project that include a number number of employees less than 50 employees and a medium project that employ less than 250 workers (Abu al-Nur ,1993). The small and medium projects take high priority and attention by countries and International organizations until comprising 90% of the international economic. Today, small and medium projects employ (50-60%) of the global workforce.

3.2 THE SHARES OF SMALL AND MEDIUM PROJECTS IN ECONOMIES OF SOME COUNTRIES AS FOLLOWS (RATOL AND DAUDEAH,2006

Japan: represents 95% from a total of economic units, and the number of employees are (84%) from the size of the workforce in its economic units, and it contribute to saving of 76% from the needs and requirements of metal, electronic, electric, and engineering industries, and contribute by (30%) from exports of industrial units, and contribute in providing intermediate products which represent 20% of exports of economic units.

Germany: represents (96%) from the number of economic units, and it occupy (77%) of the workforce, and it comprise (95%) from the capacity of financial transactions in banking institutions, and large industrial, and it achieved (52%) from the total value of industrial production.

United States of America: Achieved (50%) from GNP, and it occupy 60% from employment size.

Australia: representing (85%) from the total economic activities and occupy (45%) from the total workforce.Achieved (33%) of the total national income.

South Korea: represent 38% from total industrial production and occupy 50% from the total Industrial workforce, South Korea has been raised from rank (101) in the list of exporting countries in 1960 to rank (11) in this list today.

Tunisia: representing (93%) from the total of production and service organizations, and it running (25%) of the total active organizations, also Tunisia achieved (30%) of national product, and achieved (37%) of the added value from the national economy.

Jordan: representing (70%) of the capacity of economic activity, and provides (60%) of job opportunities.

3.3 CLASSIFICATION OF PROJECTS ACCORDING TO THE STANDARD NUMBER OF WORKERS AND ECONOMIC DEVELOPMENT.

The classification of projects was according to the standard number of workers, and according to the economic development for the group of developing countries and according to the United Nations Industrial Development Organization UNIDO (Zuhair, 2010).

- **Developed countries**
  1- Small projects the number of workers less than 99 workers.
  2- Medium projects the number of workers 100-99 worker.
  3- Large projects the number of workers more than 500 workers.
- **Growing countries**
  1- Small micro projects 1-4 workers.
  2- Small projects the number of workers 5-19 worker.
  3- Medium projects the number of workers 20-99 worker.
  4- Large projects number of workers more than 100 workers.

The choice made by a country to any standard depends mainly on one or more than one factors which are as follows:-

1. The government policies which encourage establishing of small and medium projects.
2. The size of the domestic market and the capacity of import and export activities of the country.
3. According to the role which is played by these projects in the process of economic development.
4. The level of technological progress of the country according to the economic development.

Determining the criteria of small projects as follows:

1. The standard of number of workers in the organization.
2. The standard of capital size of the organization.
3. The standard of annual sales of the organization.
4. The standard of the quality of used technology.
5. The legal standard.

The importance of small projects in achieving economic and social development (Al-Khatib and Al-Rifai 2006)

1. Providing job opportunities, which helps in reducing unemployment level and poverty?
2. Supporting the local production.
3. Supply large industries.
4. Making a solid base for large projects in the future.
5. Helping small projects to reach creativity.

The researcher concludes from the above that small and medium projects have certain criteria, and special classifications and targets, and these projects have a great importance because of their contribution to the national economy and promoting economic and social development. Therefore these projects must be funded through sufficient finance and special finance techniques that return good profits to the individuals and community as well as achieving reconstruction through Islamic finance because it is the best finance technique.

ISLAMIC FINANCE

Islamic Finance is sharia compliant finance which is offering a monetary wealth with intention to get profit from the owner to another person who managed this wealth and handle it according to Islamic law and Sharia.

Islamic finance in a modern concept that establish a relationship between financial institutions and other institutions or individuals, to save money for those who take benefit from it whether for personal needs or for the purpose of investment, and by providing financial instruments compatible with sharia and Islamic law, like sharecropping, participation and leasing.

4.1 THE GOALS OF ISLAMIC FINANCE(ALIAN,2014):

Finding alternatives to finance projects that are not sharia compliant finance and according to Islamic law, such as loans with interest for individuals or institutions.

1. Achieving the development of Islamic societies.
2. Finding job opportunities through special types of finances which are offered to large companies or providing small capital for individuals to create small projects and businesses in order to benefit the community.

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3. To achieve returns for capital owners through savings in financial institutions which offering investment tools compatible with Sharia and Islamic law.

4.2 THE TECHNIQUES OF ISLAMIC FINANCE USED FOR FINANCE OF SMALL AND MEDIUM PROJIUM PROJECTS(SAHLAWI,2002):

1. The technique of leasing with the promise to own.
2. The technique of Bai Salam.
3. The technique of Murâbaḥah .
4. The technique Istisna (Manufacturing Finance).
5. The technique of sales with commission.
6. The technique of Musharakah (joint venture)
7. The technique of Sharecropping

Several studies have confirmed that the financing through Musharakah (joint venture) in Islamic banks is one of the most successful Islamic techniques for growth of money, and this technique contribute to economic development significantly, also preserves the wealth of Muslim community from wastage. The Musharakah that ends with ownership is permitted according to the regulations of Islamic law and Sharia and it is one of the techniques used in Islamic banks, and it has a great economic importance that achieves multiple benefits to the bank as well as to the customer and the community (Saleh, 2008).

4.3 THE GENERAI CRITERIA FOR ACCEPTING A SMALL PROJECT TO FINANCE WITH SHARIA COMPLIANT finance BY ISLAMIC BANK

The criteria of legitimacy: the small project should be compliant with Islamic law and Sharia.

1. The criteria of profitability: this project must achieve profit to enable the client repayment his obligations.
2. The criteria of guarantee: that the client should do some possible guarantees in case a neglect or unable to repay.
3. The criteria of risk: The risk which is associated with implementing a project should be acceptable and reduced to minimum.
4. The criteria of bank right to monitor the project: there must be an agreement between the bank and the client on continuous monitoring by the bank of implementation of the project.
5. The criteria of technical competence: the client must have an experience in implementing the project.
6. The criteria of investment plan: the project must be agreed with the plan of the Islamic bank and its strategic plan associated with investment.
7. The legal criteria: the client should have a legal entity and capacity to sign the agreement with the Islamic bank.

THE SUCCESS FACTORS FOR ISLAMIC BANKS TO FINANCE SMALL AND MEDIUM PROJECTS (BELTAGY,2013)

The Islamic banks have an important role in the financing of small and medium projects, which revive economic activity in the country, achieve economic stability, reduce unemployment rate, and volatility of price, control recession of the markets, activate the internal and external trade and achieving economic growth that bring prosperity to the community. But the trends of some banks towards a fast profit, and the absence of economic stability and an independent judiciary are the main problems facing Islamic banks in transition towards investment. Despite that Islamic banks can finds solutions to avoid these risks and constraints and control the internal and external problems which facing the finance of small and medium projects. The solution to these problem is financing in Islamic Banks through the adoption of Islamic techniques to finance small and medium projects and investment in various industries in order to achieve maximum profit and returns to investors and depositors in these banks. Therefore, there are several success factors for these banks as indicated below:

1. The existence of legitimate and procedural evidences to finance small projects.
2. The presence of criteria for the selection of small projects and predefined standards for those who would be responsible for running these project
3. There must be a system for monitoring and control of small projects
4. There must be specific criteria for evaluation and follow-up small projects during execution
5. To prepare feasibility for all small businesses and projects in order to determines reliable parties running these project
6. The clients should provide guarantees, with the acceptance to the principle of personal bond.
7. Giving courses in the field of preparation of credit files to the owners of small businesses and projects and teach them how to deal with banks
8. To establish an Islamic collaborative insurance on Islamic finance operations
9. Providing financial data and information about small projects to the banks in order to make funding decisions with confidence
10. The availability of professional people and expertise to run small businesses and projects.

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THE SUMMARY

Based on the above discussion, it is evident that currently there are certain criteria and standards to evaluate small and medium projects, and criteria for the selection of projects and the supervisors and owners of these projects. In addition to that, it is a must to follow-up and monitoring these projects continuously after running them, and preparing feasibility reports as well. Moreover there should be guarantees provided by the clients and they should accept the terms and conditions of personal bond, and giving special courses in preparing credit files to the owners of small businesses and projects and teach them how to cooperate with their banks successfully as well as examining their experience in running these projects, in particular industrial projects. All these factors are important to achieve success in Islamic finance for small and medium projects. Following these recommendations will help small economic units to develop their business and achieve economic development in the country as well as social development. The results of this study will support the economic economy and increase the wealth of the community and citizens income.

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