



**Proposing A Model of Financial Access for Small
and Medium Enterprises (SMES) Through Islamic Banking**

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Keywords:

*Proposed model,
Islamic banking,
SMEs, Financing*

ABSTRACT

Small and Medium Enterprises play a vital role in the economic development of a country. The SMEs cannot commence their operations due to the unavailability of finance. The objective of this study is to propose a model of finance that has access to the SMEs sector through Islamic banking. International Finance Corporation in 2014 revealed that for SMEs there is a huge financing gap through Islamic banking in nine countries including Pakistan. This study utilizes qualitative and quantitative data for in-depth analyses of said problem. At an initial stage of research, interviews were conducted in the Islamic banking and the SME sector. After conducting structured interviews, questionnaires were developed for the Islamic banking and the SMEs sector by using the responses of respondents. The scales' validity was tested through a pilot study and the final questionnaires were distributed to respondents of the Islamic banks and SMEs. Quota sampling technique was used for determining the sample size from both sectors. NVIVO 11, SPSS 21 and Edraw Max 7 software were used for data analysis. The total number of questionnaires distributed in the Islamic banking sector were 400. Our proposed model reduced the finance approval process from 30 days to 15 days. This research is helpful for policymakers who can use it for revising the current policies regarding SMEs' financing in Pakistan.

INTRODUCTION

The financial sector of any country is considered as one of the most important sectors for its economic growth, so its importance cannot be denied. Banks are the institutions, which not only help but also mobilize the savings of any country and therefore act as a partner in economic development. Moreover, they act as a bridge between a lender and a borrower. Islamic financing has got a competitive edge from conventional financing or conventional banking system from the last few decades. Before 1970, banking system of Pakistan was purely based on the conventional banking system, and the country began the way of Islam after the 70s. The policies, rule, and regulation of banking ordinance 1962 were transformed to an extent that it changed the conventional banking system into the interest-free banking system. In 1979 almost all financial institution specialists like HBFC (House Building Finance Corporation) converted their whole business operations into principles of Islam. In the 1960s, the Islamic banking system had great development in a new pattern as compare to other Conventional banking systems.

The first Islamic bank was established in Pakistan in 2002 and within the last 10 to 12 years the Islamic banking shares more than 12% of the whole banking industry. With more than 1700 branches of Islamic banking and more than 32% growth in assets, deposits, financing and investment and the Islamic banking system of Pakistan, most importantly is the backbone of the Islamic banking region. Currently Islamic banking is highly demanded in Pakistan. Where the SMEs are demanding short to medium term financing facilities from the Islamic sector. A probable gap of \$13.2 billion for Islamic SME's financing among nine countries in the region is highlighted by Small and Medium Enterprises in Middle East North Atlantic (MENA). Many SMEs are looking exclusively at products from the Islamic banking sector due to Sharia compliance. Current research focuses on providing a model to fulfill the gap between SMEs and the Islamic banking sector.

The challenge to reach finance is the major difficulty in the way of success. There is a lack of collateral in SMEs that is why the approval of the loan from banks and lending institutes becomes very difficult. There is a shortage of accounting and financial information in SMEs; the deficiency of business strategies or feasibility reports that are valuable in assessing the cash flows of business and predictable return on investment. SMEs are facing many problems such as, employing deficient managerial abilities, scarcity of marketing, shortage of capital goods, lack of information in the sector and resistance to change are some other difficulties that pull them down (Qureshi, 2012).

IFSB (2014) research has revealed that in the development of the Islamic banking products, 73% of respondents were named "lack of awareness of the Islamic banking products and services" in their jurisdictions (IFSB, 2014). The below Figure 1 shows the major challenges that Islamic SME Banking is facing around the world.

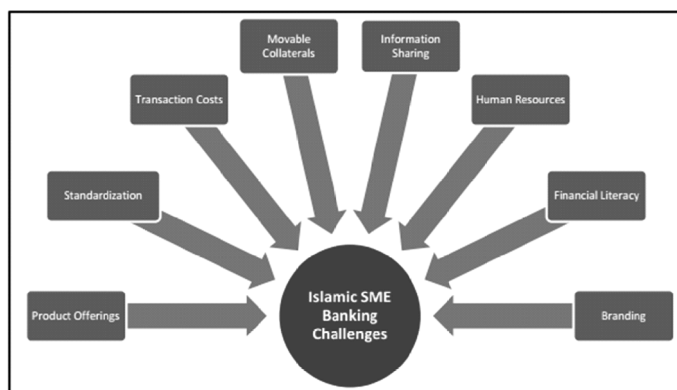


Figure 1: Islamic SME Banking Challenges

The majority of small and medium enterprises are looking for Islamic products to cater to their need for financing. These small and medium enterprises would not like to choose the conventional modes of financing because of the interest factor. There is a need to have a comprehensive model to fulfill this gap. This research focuses on a solution for the improvement of financial access for SMEs from Islamic Banking.

The aim of the current study is to propose a comprehensive model which can enhance the understanding of the given problem where SMEs and Islamic Banking can be closer to remove the financing gap. It is quite clear from the Quran that interest is prohibited in Islamic society. This study addressed the improvement of financial access for Small and Medium Enterprises by using the medium of the Islamic Banking sector in Pakistan. There are many reasons for selecting this topic in our research study; the main reason being that there is a big difference between the demands of financing to SME's and the supply of financing from the Banking side in Pakistan. Due to this study we have to find out the gap or difference between gain/demand for financing in SME's and provide financing facility from Islamic banks or other financial institutions in Pakistan.

LITERATURE REVIEW

In Pakistan, the Islamic banking sector is facing challenges to finance the SMEs as if most of the developing countries of the world, which are discussed many times (Majeed & Zainab, 2017). The biggest challenge is awareness among the public about the prohibition of Riba in banking and financial business. Until people get to understand the drawbacks of Riba, the migration from a Riba-Based to Riba-Free Banking would not be possible. This is only possible when demand for Riba Free Financing will be created. Otherwise, the challenges to cater to the needs of Riba Free Banking Products would never be controlled.

The importance of SMEs awareness is a key factor in creating such a demand for Riba free banking instruments. Therefore, it is important for them to understand the processes as well as the consequences of the Sharia Information asymmetry and its implications. The problem is with the Islamic banks too, at first there is a need to change the perception of the Islamic Banks so that the Bankers are able to differentiate between the products of Islamic Financing from the Conventional Financing instruments. This is important because to make others understand you must have a complete understanding of the product you are offering to others. Therefore, the change of perception of Islamic bankers is also a challenge when selling a product that is sharia compliant.

Like any other business understanding the client and the needs of the customer is a very important challenge. In addition to it, Islamic banks also need to prepare a plan for its borrowers, because flexibility can be a key element in the development of trust between the Islamic Bank and the SME. This may also help SME to restrain from misuse of finance.

Another hurdle is of Informal Account and Management System that helps in the evaluation of the repayment capability and capacity of SMEs. However, this is not materialized because most of the SMEs are not well documented, it has many reasons such as low literacy of the owners. Usually, SMEs are poor at keeping track of their performance through advanced accounting such as double-entry systems and analysis of financial ratios. In the absence of proper business analysis, it becomes more challenging for Islamic banks to forward loans and keep track of returns eventually sharia risk is high.

To add up the reluctance of the SMEs for facilitating, the loan process is greater due to the above reasons. This leads to equality opposite behaviors of Islamic Banks as the credit process is delayed, the documentation process is lengthy and Islamic Banks insist on collaterals and guarantees. Which are difficult to be provided by the SMEs and thus the whole process is hampered. Therefore, these factors contribute to the challenges of smooth Islamic financing to SMEs even more.

According to the report given by the SBP in 2009, SME sector's contribution is 29% in GDP (gross domestic product) of country, with inclusion of agriculture sector where SME's provide 86% job to the unemployed people in the country and also manufacturing company 24% contribution to revenue which gains from export to other countries.

In 2010, according to the latest report given by the SBP, 88% loan of the SME sector is in Punjab and Sindh (62% in Punjab, 26% in Sindh) and rest from all other areas of our country Pakistan. Another report in highly observed that banks and other financial resources providing credit facility to SME's sector decline by almost 21% then the ultimate result in the economy of the country from a high level to a slow level economy. It was also noted that the reasons for loan default were improper management of the working capital of the company.

The three big cities of Pakistan (Faisalabad, Karachi and Lahore) are demanding 52% of total credit facilities of the SME's in the country and 20 top famous cities were up to 80% of total credit financing of the country. Almost 85% of credit financing was gained by current assets and current liability requirements which is shown to the bank in financial statement and other required documents that banks provide finance or loan to start long-term project (SBP, 2010). Banks are the main and important source of providing loan to the SME'S. Banks also have developed different policies for better providing loans and development of the SME'S business as well (Phiri, 2017).

The Microfinance banks have given out small loans for the growth of the small manufacturers, which has increased their income and helped in generating employment. Rahim (2007) says that commercial banks are the source of microfinance for micro-enterprises but unfortunately commercial banks hesitate to provide financing them because their eligibility criterion is tough, so Islamic micro-financing is an option for micro-enterprises. The researcher further described that Islamic financing schemes are having the attribute that might benefit through integrating with the small entrepreneurs, as the attraction lies with the Islamic Microfinance because Islamic Microfinance is an alternative to conventional means of operating microfinance institutions, where the element of interest is omitted.

Micro-financing under Islamic banking becomes very famous and popular amongst the people of Pakistan very quickly. Micro-financing under Islamic banking has the ability to satisfy the financing needs of Muslims and to develop a prized human capital and this is positively enhancing the economic growth of the country as pointed out by Iqbal and Molyneux (2016). In Pakistan, the demand for Sharia compliant products is too high, which are offered by Islamic banks. Nowadays, in Pakistan above ten Islamic Microfinance Institutions are in operation. It allows the establishment of Islamic Micro Finance Institutions' Counters in the existing branches of the Conventional banks as well as the establishment of Independent Islamic Microfinance branches. The banks can also start subsidiaries with independent and professional board and management, as clearly highlighted in the guidelines of SBP for Islamic Microfinance Business by Financial Institutions under prudential regulation SMED Circular No. 10 dated June, 27, 2006. Moreover, a review on Islamic Banking Sector of Pakistan in 2007 states that the State Bank of Pakistan will provide guidelines for the establishment and provision of Islamic microfinance products and services for financial institutions.

IBF observers have long identified a split between two types of IBFIs: those focusing on technical Sharia compliance (the letter of the law, so to speak) in their contract forms, and those devoted to the social justice mission of Islam (the spirit of the law) as discussed by El-Gamal (2006), Khan (2015). In other words, a hierarchy of Islamic authenticity exists within IBF. Corporate culture also varies: some of the largest IBFIs in the Gulf Cooperation Council (GCC) prefer applicants with conventional business and economics degrees over the Islamic finance certifications and are heavily staffed at top levels by non-Muslim expatriates with conventional banking and finance backgrounds. As governments and institutions experiment with different degrees of adherence to the letter or spirit of the law, this does not necessarily reflect on inherent religiosity. IBFI activities are contextual, relating to peer institutions and national or regional trends, politics, and laws. The modern Islamic finance industry is only the latest incarnation of Islam's long engagement with economics. The Qur'an links economic accounting with the spiritual accounting conducted upon death, before God, and these verses are often included in IBFIs' annual reports, websites, and other documents. The "remembrance of death" Israr et al., (2018), these yields during one's earthly life keeps the promise of an eternal hereafter ever-present. Through this remembrance, and a view of existence as a continuum from the here to the hereafter, "self-interest and social interest are integrated" Kwaning et al., (2015) making social justice a "shared endeavor...between God and humankind" (Kostiew, 2017). Engaging in Islamic finance can thus be understood as an ethical duty, emphasizing human accountability and "fulfillment of this-worldly endeavors in the world to come" (Mason & Brown (2014).

The history of early Islam is also an economic history: The Qur'an, Sunnah, hadith (collected sayings and acts of the Prophet Mohammed), and fiqh (juridical interpretations of Sharia) offer guidance for trade and business and produced a rich Islamic contract law tradition. The protracted timeframe of long-distance merchant trade for in medieval Islam gave rise to the Mudarabah and Musharaka contract two common Islamic financing contracts today (Khan, 2015). The guidance also exists regarding socially just distributions of wealth. In Islam, believers are recognized to struggle against tendencies toward self-benefit. Self-interest is foundational to the principle of scarcity in conventional economics, where limited supply interacts with demand. As individuals are presumed to maximize self-interest, they ostensibly engage in ethical behavior only when it is in their self-interest to do so (Olawale & Garwe, 2010).

SME sector has high growth and development in the economy of the country, but there are some problems include in it. Before 2000, mainly focus on the government sector, banking sector, and other financial institutions to finance the business the result is a high percentage of failure due to unlawful activities, political relationships and unfair labor practice in the business with large financing failure (SME Bank, 2013). An important portion of SME sector is that there is no proper security for any activity such as documentation and loan. Most businesses involve in SME lack that proper accounting treatment and financial information or financial statements based on given or taken criteria (Schwab, 2017). Another problem is the lack of planning in the business sector of SME that is based on the cash-flow of business and return on making investment includes general accounting system of the business (Phiri, 2017). SME sector has a great or high chance that default in repaying or return the loan to the financial institution that provides credit facility to run business activity and mostly default rate of SME sector is 12% to 14% (Tanveer, 2001).

In 2009, according to the report given by the World Bank, there was a large financial service growth in Pakistan. Almost more than half of the population borrowed the loans from the banks, financial institutions and others. But only 4% to 5% population of country use loans or borrowing money for productive purpose and rest of the population use money in nonproductive purpose and the ultimate bad result of the economy of the country (World Bank, 2014).

It can be further supported by adding Yunus (2008) who proposes that people who are socially poor and discouraged can be greatly benefited from Islamic finance. It helps boosts up their economic assets, income, and employment. Khaled (2011) said that Islamic banking is highly admirable for having a close connection in ideological and practical terms. He goes on to say that it not only financially supports the poor entrepreneur through credit, but it also produces an opportunity to the investors for exercise their knowledge in Islamic banking to set social returns.

METHODOLOGY

A multi-method data collection technique is used (for more than one data collection techniques), but it is only applicable to quantitative or qualitative world view (Tamanni & Liu, 2017). Mixed method research is divided into two types, first quantitative and qualitative data collection techniques, second is analysis procedures either in a parallel way or in a sequential way, but should not be combined. This means, although at research design phase, mixed-method the research uses quantitative and qualitative world views. Quantitative and qualitative data are analyzed, respectively.

Tamanni and Liu (2017) argued that multiple methods are useful only if they enable us to answer our research questions and allow us the better measure and the degree to which our research observations can be trusted. This would give you sureness that you were coping with the most important issues (Cooper & Schindler, 2003). Current research is applied research and by using qualitative and quantitative approaches, the responses from the group of people (population) gathered. These approaches mostly used in behavioral studies (social sciences, sociology, etc.). The current study is applied research in nature because at the end of the study the produced proposed model can be used in the Islamic Banking sector as well as the SMEs sector of Pakistan. This study used inductive and deductive approaches (Schwab, 2017); interviews were held by professionals for preliminary data collection and to get a clear vision regarding problem definition. Respondents were categorized into two portions Islamic Banking and SME sector based on Upper level of management in banking and owner's / finance officers in SME sector. Structured interviews have been conducted with 50 Islamic banking representatives and 40 SME's owners. According to Latham, (2013), a minimum of 15 interviews enough if participants are homogenous. In this research, our sample has homogeneous characteristics, so we have selected more than 15 interviews from both sectors.

The whole exercise of interviews, distribution of questionnaires, their collections and clear sessions were carried out systematically. Various management carders were contacted through head offices, liaison offices, chamber of commerce and industries. Personal visits were also made in various offices of organizations to gather firsthand information. The study was spread across the board without any reservation. Permanent employees of the Islamic Banking Sector and owners of SMEs who regularly participate their business were

preferred for the rationale that they have dedicated a considerable amount of time in organizations, and hence have a sound knowledge of rules, procedures, and tactics of the organization (Sivasakthiya & Sivaprakasam, 2017).

The probability sampling technique is employed to decide on the most parts from the population and each main part has an equal chance of occurrence. Most scholars used this technique according to the required situation of the study and according to the importance of the unit within the target population. Whereas Non-probability sampling refers to the scenario when there is an outsized variation in the population and cannot be planned out and exposed effectively. It includes convenient sampling, purposive sampling, and quota sampling. Quota sampling technique was used to select respondents for the study. Quota sampling is, therefore, a type of stratified sample in which a selection of cases within strata is entirely non-random (Yunus, 2008). The motive behind quota sampling selection is that subjects are taken wherever and whenever they are useful. This sampling technique is a good way of obtaining preliminary information quickly and inexpensively from each subgroup of the population.

Sample size selection is the central part of every research study, because the inappropriate selection of sample size may adversely affect the generalizability of the study (Phiri, 2017). The sample size was calculated based on the table provided by Sivasakthiya and Sivaprakasam (2017) in their book “Research Methods for Business Students” and formula given by Cavana et al., (2001) in their book “Business Research Methods”. Based on the above evidence, the current study determined 322 respondents from the Islamic Banking sector and 384 respondents from SMEs as sample size for this study. For the purpose of safety and low margin of error we selected 350 respondents from the Islamic Banking sector and 500 respondents from the SMEs. The sample selection from each province of the Islamic Banking Sector and SMEs for our study is given in the below table.

Table 1: Population and Sample of Islamic Banks in Pakistan

Province	Total No of Branches	Percentage of Total	No of Respondents (n=350)
Punjab	797	46.83	164
Sindh	539	31.67	111
KPK	180	10.58	37
Islamabad	90	5.29	19
Balochistan	66	3.88	14
AJK	18	1.06	4
Gilgit Baltistan	7	0.41	1
FATA	5	0.29	1
Total	1597	100.00	350

Source: Islamic Banking Bulletin, State Bank of Pakistan, June 2015

Table 2: Population and Sample of SMEs in Pakistan

Province	Percentage of Total (Approx.)	No of Respondents (n=2.96 Million)
Punjab	65.26	326
Sindh	17.82	89
KPK	14.21	71
Islamabad	0.62	3
Baluchistan	2.09	10
AJK	N/A	-
Gilgit Baltistan	N/A	-
FATA	N/A	-
Total	100.00	500

Source: *The Economic Survey of Pakistan, 2009*

International Finance Corporation, 2014, already designed a questionnaire for determining the need of SMEs financing through Islamic Banks in Nine countries. For initial interviews (preliminary exploration), we used the same questionnaires for SMEs and Islamic Banking sector. After initial data collected by interviews from SMEs and Islamic Banks, final questionnaires were developed as per interview results to cater to the need for both parties. On the basis of domestic needs, questionnaires were developed and distributed to the selected samples of SMEs and Islamic Banks in different provinces of the Pakistan. The above tables show that the response rate of the Islamic banking sector was 83.50 and SME sector was 87.81%. With respect to the Islamic banking sector and SMEs sector, both response rate is above 80%.

The primary data collection method, a survey was done to collect data from selected respondents of the population. The 480 respondents selected in the SME sector (including male and female, age, status, etc.) Collect data on the basis of the quota sampling technique used from the manufacturing and trading type of business concern. Interview conducted from high professional managers of SME's owner, manager of SME bank, a high official of SBP and SMEDA for the development and update of SME's sector.

The qualitative cum quantitative research techniques were utilized to find out the financing solutions for SME through the Islamic Banking sector in Pakistan. A total of 400 questionnaires were distributed to the Islamic Banking sector for the survey. The researcher received 334 proper filled questionnaires successfully, therefore the response rate was approximated 83.50%, the incomplete and no response rate was just 16.50% that is not a high rate, the sample size was 320 as per calculated in the above section. From SMEs, the researcher received 483 proper filled questionnaires successfully, out of 550 questionnaires distributed. The response rate was almost 87.81%, the incomplete and no response rate was just 12.18% that is not a considerable rate, although the sample size was calculated, 397 respondents. The response rate was high because the researcher visits different cities and already got an appointment for data collection. There is no missing data because the researcher checked all questionnaires before receiving back and the scale was developed carefully.

This section presents the steps taken to analyze the current study. Where appropriate, the rationale underlying each step is presented. These steps are summarized as under:

- A pilot study of preliminary interviews of Islamic banking sector respondents by using NVIVO 10.0 was done for the development of a questionnaire for further data collection.
- A pilot study of preliminary interviews of SME sector respondents by using NVIVO 10.0 was done for the development of a questionnaire for further data collection.
- A pilot study of the final questionnaire of the Islamic Banking sector respondents by using SPSS 21.0 was done to check the questionnaire face and content validity.
- A pilot study of a final questionnaire of SME sector respondents by using SPSS 21.0 was done to check the questionnaire face and content validity.
- Frequency distribution of demographics items and questions analysis of the Islamic Banking sector by using SPSS 21.0 and MS Excel 2013 was done to analyze the responses of respondents.
- Frequency distribution of demographics items and questions analysis of the SME sector by using SPSS 21.0 MS Excel 2013 was done to analyze the responses of respondents.
- The process model was designed by using Edraw Max 7 software, which helped in understanding the process.

According to Goedertier et al., (2013) a wide variety of approaches has been proposed by the business process modeling research that are, the extremes of the spectrum, the declarative, imperative and hybrid process modeling paradigms. The current study followed the hybrid process modeling approach, in which we have set rules of business, events, expressions and flow control-flow of the business process. By using the results of qualitative and quantitative data, we have prepared a detailed proposed process model.

Quantitative Final Results Islamic Banks Quantitative results

Table 4: Frequency distribution and Percentage with respect to “Gender of Respondents”

	Frequency	Percent
Male	303	90.7
Female	31	9.3
Total	334	100.0

Table 4 shows the respondent's age with respect to frequency and percentage. From the total 334 valid respondents, 91% are male respondents with their proportion of 303 and 9% are female with their proportion of 31 only. Therefore, the demographics of the above study depicted that the male ratio is more as compared to females in the Islamic banking sector.

Table 5: Frequency distribution and Percentage with respect to “Age of Respondents”

	Frequency	Percent
Less than 25 Years	2	.6
26 to 35 years	133	39.8
Above 36 years	199	59.6
Total	334	100.0

Table 5 shows the ages of respondents who took participation. Among 334 valid respondents, only 0.6% of respondents are in the age group of less than 25 with a proportion of 2 numbers of respondent. Similarly, 40% of respondents are in the age group of 26 to 35 years with an adequate proportion of 133 persons and 60% of respondents are in the age group of above 36 years with a proportion of 199 persons from a total of 334 valid respondents.

Table 6: Frequency distribution and Percentage with respect to “Designation of Respondents”

	Frequency	Percent
Branch Manager	303	90.7
VP	21	6.3
Head of Credit Department	10	3.0
Total	334	100.0

Table 6 shows the demographics of designation categorized into the Branch Manager, Vice President and Head of the Credit Department. The statistics of the current table shows that with a comparison of the designation of respondents' majority were Branch Managers, after preliminary exploration, we analyzed that branch managers can respond our query because they face clients daily.

Table 7: Frequency distribution and Percentage with respect to “Province/State of Respondents”

	Frequency	Percent
Punjab	165	49.4
Islamabad	22	6.6
KPK	11	3.3
Baluchistan	17	5.1
Sindh	113	33.8
FATA	1	0.3
AJK	4	1.2
Gilgit Baltistan	1	0.3
Total	334	100.0

Table 7 shows the demographics of Islamic banking branches in each province and state of Pakistan. Among the total 334 branches, 49% of branches are in Punjab that comprises a major proportion of 165. Similarly, in Islamabad, its ratio is 7% with 22 banking branches. KPK comprises 3% Islamic banking branches; Baluchistan consists of 5% Islamic banking branches; Sindh comprises a large portion of branches after Punjab and Islamabad with 34%. Similarly, FATA, AJK, and Gilgit Baltistan comprise 0.3%, 1.2%, and 0.3% branches respectively.

Table 8: Frequency distribution and Percentage with respect to “Easiness for SME financing from Islamic Banks”

	Frequency	Percent
Yes	77	23.1
No	68	20.4
Up to some Extent	189	56.6
Total	334	100.0

Table 8 shows the statistics of questions asked from people. It's clear from the above statistics that majority of respondents (60%) agree that SME use to avail finance from Islamic banks.

Table 9: Frequency distribution and Percentage with respect to “Interested Sector for Islamic Banking Finance”

	Frequency	Percent
Manufacturing Sector	105	31.4
Services Sector	84	25.1
Trade Sector	145	43.4
Total	334	100.0

Table 9 shows the statistics of different sectors interested in taking loans from Islamic banks. When the question asked from them, 31% with a proportion of 105 persons from a total of 334 valid respondents said that the manufacturing sector is more interested in having loans and other financial dealings from Islamic banks that make a proportion of 105 among 334. In the same way, 25% with a proportion of 84 persons from a total of 334 valid respondents said that the service sector is more interested in taking loans and other financial dealings from Islamic banks. Consequently, 43% with a proportion of 145 persons from a total of 334 valid respondents said that the ‘trade sector’ is more interested in having loans and other financial dealings.

Table 10: Frequency distribution and Percentage with respect to “Policy for SMEs and other clients”

	Frequency	Percent
Yes	279	83.5
No	55	16.5
Total	334	100.0

Table 10 shows the statistics of Islamic banking professionals for having their separate policy for SME’s and other clients. When asked 84% of them said ‘yes’ with a proportion of 279 persons from a total of 334 valid respondents that we have a separate policy for SMEs and other clients. Similarly, only 16% with a proportion of 55 persons from a total of 334 valid respondents banking professionals said that we don’t have a separate policy for SME’s and other clients.

Table 11: Frequency distribution and Percentage with respect to “Time taken by Bank for financing approval”

	Frequency	Percent
15 to 30 days	10	3.0
Above 30 days	324	97.0
Total	334	100.0

Table 11 shows the statistics of loan approval time. When asked from the Islamic banking professionals, 3% with a proportion of 10 persons from a total of 334 valid respondents said we used to take 15 to 30 days for approval of loan request and other security measures according to the defined terms and condition of State Bank of Pakistan (SBP). Similarly, 97% of banking staff with a proportion of 324 persons from a total of 334 valid respondents said that it normally takes more than 30 days to process a loan for SMEs and other businesses. From the statistics, it is clear that it is a time-consuming activity to process a loan approval from Islamic banking branches and this step can be a big hurdle between SME’s business and banking functionaries.

Table 12: Frequency distribution and Percentage with respect to “Type of More Demanding Financing product”

	Frequency	Percent
Short term Financing	146	43.7
Medium term Financing	101	30.2
Long term Financing	87	26.0
Total	334	100.0

Table 12 shows the statistics of the type of finance that is the demand from the SME's sector. It is clear that short-term financing is the most preferable form of investment made by SME sectors.

Table 13: T-Test Results

The below table shows the t-test results of each item. The results show that each item is statistically significant at a 95% level of confidence.

Items	Test Value = 0		
	T	df	Sig. (2-tailed)
Is it easy for an SME to avail finance from Islamic Banks?	51.529	333	.000
Which sector (s) is/are more interested in Islamic-Banking finance?	45.145	333	.000
Do you have a separate policy for SMEs and other clients?	57.304	333	.000
How much time does your bank usually take for loan approval?	38.025	333	.000
In your opinion, which type of finance is more demanding currently?	40.759	333	.000
In your opinion what is the major reason for the low adoption of Islamic Finance products in the SME?	44.298	333	.000

SMEs Quantitative results

Table 14: Frequency distribution and Percentage with respect to “Gender of Respondents”

	Frequency	Percent
Male	405	83.9
Female	78	16.1
Total	483	100.0

Table 14 shows the statistics of the gender of small and medium enterprises (SME) owners at all over Pakistan. Hence, out of a total 483 number of SME's, 84% with a proportion of 405 persons from the total of 483 valid respondents SME's owners are male and 16% with a proportion of 78 persons from the total of 483 valid respondents SME's owners are female. So, it showed that males are more tended to own and run a small business.

Table 15: Frequency distribution and Percentage with respect to “Age of Respondents”

	Frequency	Percent
Less than 25 Years	18	3.7
26 to 35 years	299	61.9
Above 36 years	166	34.4
Total	483	100.0

Table 15 shows the statistics of SME's owner and related employees ages. Therefore, out of 483 total study populations, 3.7% with a proportion of 18 persons from the total of 483 valid respondents are below the age group of 25 years that make a proportion of 18. 61.9% respondents with a proportion of 299 persons from the total of 483 valid respondents are in the age group of 26 to 35 years. Similarly, 34.4% of respondents with a proportion of 166 persons from a total of 483 valid respondents have an age group of more than 36 years.

Table 16: Frequency distribution and Percentage with respect to “Qualification of Respondents”

	Frequency	Percent
Graduate	12	2.5
Post Graduate	471	97.5
Total	483	100.0

Table 16 shows the statistics for the qualification level of respondents. It is clear that most of the employees of SME' are with postgraduate qualifications.

Table 17: Frequency distribution and Percentage with respect to “Designation of Respondents”

	Frequency	Percent
Owner	439	90.9
Finance Officer	44	9.1
Total	483	100.0

Table 17 shows the statistics of respondent designation at the job. Most of the respondents are the owner of the business as it is 90.9% with a proportion of 439 persons from a total of 483 valid respondents. Hence, it's good that most of the small and medium enterprise businesses are managed by owners while a few businesses are managed by finance officers.

Table 18: Frequency distribution and Percentage with respect to “Province/State of Respondents”

	Frequency	Percent
Punjab	299	61.9
Sindh	94	19.5
KPK	73	15.1
Baluchistan	13	2.7
Islamabad	4	.8
Total	483	100.0

Table 18 shows the statistics and the number of SME's in the provinces of Pakistan. Therefore, 61.9% SME's are in Punjab, 19.5% are in Sindh, 15.1% are in KPK, and Only 2.7% SME's are in Baluchistan. Similarly, 0.8% SME's are in Islamabad making a proportion of 4 out of 483.

Table 19: Frequency distribution and Percentage with respect to “Sector of Respondents”

	Frequency	Percent
Manufacturing Sector	185	38.3
Services Sector	157	32.5
Trade Sector	141	29.2
Total	483	100.0

Table 19 shows the statistics of sectors in SME's business. Therefore, 38.3% of SMS's are in the manufacturing sector making a proportion of 185 out of 483. Similarly, in the service sector, there are 32.5% SME's and in the trade sector, its percentage is 29.2% that makes a proportion of 141 out of 483.

Table 20: Frequency distribution and Percentage with respect to “Tenure of Business”

	Frequency	Percent
Less than 1 year	98	20.3
1 to 3 years	103	21.3
3 to 10 years	220	45.5
More than 10 years	62	12.8
Total	483	100.0

Table 20 shows the statistics of the question of years of running a business. So, when this question was asked from the 483 respondents, 20.3% with a proportion of 98 persons from a total of 483 valid respondents told that we are running this business for less than one year. Similarly, 21.3% with a proportion of 103 persons from the total of 483 valid respondents told that we are running this business for a period of 1 to 3 years, 45.5% with a proportion of 220 persons from the total of 483 valid respondents told that we are running this business for a period of 3 to 10 years, and 12.8% with a proportion of 62 persons from the total of 483 valid respondents told that we are running this business for more than 10 years.

Table 21: Frequency distribution and Percentage with respect to “Access of Finance for business activities”

	Frequency	Percent
Islamic Banks	45	9.3
Conventional Banks	126	26.1
Friends & Family	273	56.5
Other	39	8.1
Total	483	100.0

Table 21 shows the statistics of access to finance for business activities. When this question was asked from the 483 respondents that which channel they use for having their business activities, 9.3% with a proportion of 45 persons from the total of 483 valid respondents told that we manage finance from the Islamic banks. In addition, 26.1% with a proportion of 126 persons from the total of 483 valid respondents said we manage the finance for our business from conventional banks, 56.5% with a proportion of 273 persons from the total of 483 valid respondents told that we manage from friends and family and 8.1% with a proportion of 39 persons from the total of 483 valid respondents did not mention their finance source.

Table 22: Frequency distribution and Percentage with respect to “Types of financing products that SMEs are typically availing”

	Frequency	Percent
Short term Financing	262	54.2
Medium term Financing	116	24.0
Long term Financing	105	21.7
Total	483	100.0

Table 22 shows the statistics of types of financial products that are being availed by SME's. When this question was asked, 54.2% with a proportion of 262 persons from a total of 483 valid respondents told that short-term financing is easily available. Whereas, 24% with a proportion of 116 persons from the total of 483 valid respondents said that 'medium-term financing' is typically availed by the SME's and 21.7% with a proportion of 105 persons from the total of 483 valid respondents told that 'long term financing' is typically availed by SME's.

Table 23: Frequency distribution and Percentage with respect to “Level of Satisfaction with the Islamic finance products currently available with banks”

	Frequency	Percent
Yes	121	25.1
No	92	19.0
Up to some Extent	270	55.9
Total	483	100.0

Table 23 shows the statistics of the question of satisfaction with the Islamic finance products currently available with banks. When this question was asked from the 483 respondents, 25.1% with a proportion of 121 persons from a total of 483 valid respondents told that ‘Yes’ we are satisfied, 19% told that ‘No’, and 55.9% with a proportion of 92 persons from a total of 483 valid respondents told that we are satisfied ‘Up to some extent’. So, the policymakers should tap this huge gap of “up to some extent” and bring them towards satisfaction level.

Table 24: Frequency distribution and Percentage with respect to “Choice about preference of Islamic finance over conventional finance”

	Frequency	Percent
Yes	410	84.9
No	73	15.1
Total	483	100.0

Table 24 shows the statistics of the question of choice that would you prefer Islamic finance over conventional finance. Among 483 respondents, 84.9% with a proportion of 410 persons from a total of 483 valid respondents said “Yes” that we prefer Islamic banking over conventional banking and 15.1% with a proportion of 73 persons from a total of 483 valid respondents said “No” that we do not prefer the Islamic banking over conventional banking.

Table 25: T-Test Results

The below table shows the t-test results of each item. The results show that each item is statistically significant at 95% level of confidence.

Items	Test Value = 0		
	T	df	Sig. (2-tailed)
How do you access to finance for your business activities?	75.919	482	.000
What are the types of financial products that you are typically availing of?	45.465	482	.000
Are you satisfied with the Islamic finance products currently available to banks?	59.964	482	.000
Given a choice, would you prefer Islamic finance over conventional finance?	70.558	482	.000

Qualitative Analysis

The following questions asked from the Islamic Banking Sector for comprehensive analysis purposes. During the pilot study, it was observed that these questions are not suitable to convert into close-ended questions because with closed questions the answers will be limited. The results of our research activity of respondents are given below.

The first question from the Islamic Banking sector: What are the challenges that you face while dealing with the SME sector?

There are numerous challenges that Islamic banking sector is facing while dealing with SMEs in Pakistan which are mentioned above.

The top five problems emerging out of this exercise were the following as mentioning the problem percentage of respondents in the below Table:

Table 26: Major Challenges highlighted in percentage of respondents

S. No	Problems	Percentage of Respondents
1	The SMEs do not maintain the proper financial record.	73%
2	The SMEs owners are less educated.	64%
3	The SMEs do not maintain the proper documentation.	56%
4	SMEs do not have collateral for financing purposes.	41%
5	The government is not taking proper initiative for the development of this sector.	39%

The second question from the Islamic Banking sector: “In your opinion, what are the major opportunities for banks within the SME sector, specifically for the Islamic finance products?”

The top five problems emerging out of this exercise were the following as mentioning the problem percentage of respondents in the below Table:

Table 27: Major Opportunities highlighted in percentage of respondents

S. No	Problems	Percentage of Respondents
1	Islamic banks can develop specific products and services for SMEs.	81%
2	Islamic banks may design SME banking models.	74%
3	Islamic banking sector pays attention to the biggest sector of Pakistan's economy.	71%
4	Islamic banks must focus on building relationships with SMEs.	52%
5	Islamic banks can play a role in the awareness of their products.	40%

SMEs Qualitative Results

From the SME sector following two questions were asked for analyzing their opinion in detail. The results of our research activity of respondents are given below.

The first question from the SME sector: What challenges do you face while accessing finance through formal channels?

The top five challenges emerging out of this exercise were the following as mentioning the problem percentage of respondents in the below Table:

Table 28: Major Opportunities highlighted in percentage of respondents

S. No	Problems	Percentage of Respondents
1	The huge requirements of documentation for financing are a major challenge for SMEs.	87%
2	Banks charge high interest from SMEs.	69%
3	Most SMEs are not aware of the financing procedure and source of easy financing.	62%
4	SMEs financial illiteracy is a big hurdle for this financing through formal sources.	54%
5	The financing procedure for application approval is strictly vetted.	49%

The second question from SME sector: In your opinion, what are the major opportunities for SMEs within the Islamic Banking in Pakistan?

The top five challenges emerging out of this exercise were the following as mentioning the problem percentage of respondents in the below Table:

Table 29 Major Opportunities highlighted in percentage of respondents

S.No	Problems	Percentage of Respondents
1	In Pakistan Islamic banking sector is well established and highly preferred for Sharia-compliant products.	81%
2	State Bank of Pakistan is playing a significant role in filling the gap between SMEs and Islamic banking sector.	56%
3	Due to interest free banking, the Islamic banking is an attractive option for SMEs in Pakistan.	52%
4	The majority of SMEs prefer Sharia -based financing, which can be obtained from Islamic banking sector.	34%
5	In Pakistan the potential demand for Islamic banking products within the small and medium enterprises sector is high.	29%

Proposed Process Research Model:

A series of steps and decisions involved in the system through which work is completed is called a process. It may not be realized by it, but processes are all over the place and in each branch of our leisure and work. To describe and communicate the present or anticipated future state of a business process, Process modeling is mechanized. The concern of the Process modeling technique is with 'mapping' and 'workflow' to enable understanding, analysis and constructive change. Diagrams like 'flow diagrams' are an essential aspect of the methodology (Smith et al., 2003).

According to Goedertier et al (2013), an extensive diversity of methods has been proposed by the business process modeling research that is, “the extremes of the spectrum, the declarative, imperative and hybrid process modeling paradigms”.

The focus of “Declarative process modeling approaches” is on the investigation of the ways which should be used to achieve business goals, without recommending how an end state should be reached. For that reason, these models indicate a set of restraints, rules of business, event circumstances or other (logical) expressions that describe properties of and dependencies between activities in a business process.

To provide a precise definition of the control-flow of the business process in a graph-based process, modeling language is being focused on imperative process modeling approaches. Currently, these approaches are widely used in process modeling. The basic constructs of graph-based process modeling languages are activities and control-flow dependencies between them, represented as nodes and directed arcs, respectively.

Currently, some hybrid process modeling approaches, combining both declarative and imperative constructs, have been presented. 'Flexibility as a service' is found by us amongst the hybrid approaches. (Van der Aalst et al. 2009) and the process materialization approach (Kumar and Yao 2009). A thorough overview of hybrid process modeling approaches can be found in Caron and Vanthienen (2011).

The current study followed the hybrid process modeling approach, in which we have set rules of business, events, expressions and flow control-flow of the business process. By using the results of qualitative and quantitative data, the researcher has prepared a detailed proposed process model.

Figure 2 is showing the current financing approval process which the Islamic banks are following in Pakistan and figure 2 is showing the proposed financing approval process which the Islamic banks should follow for SMEs.

Proposed Financing Approval Process in Islamic Banking Sector of Pakistan

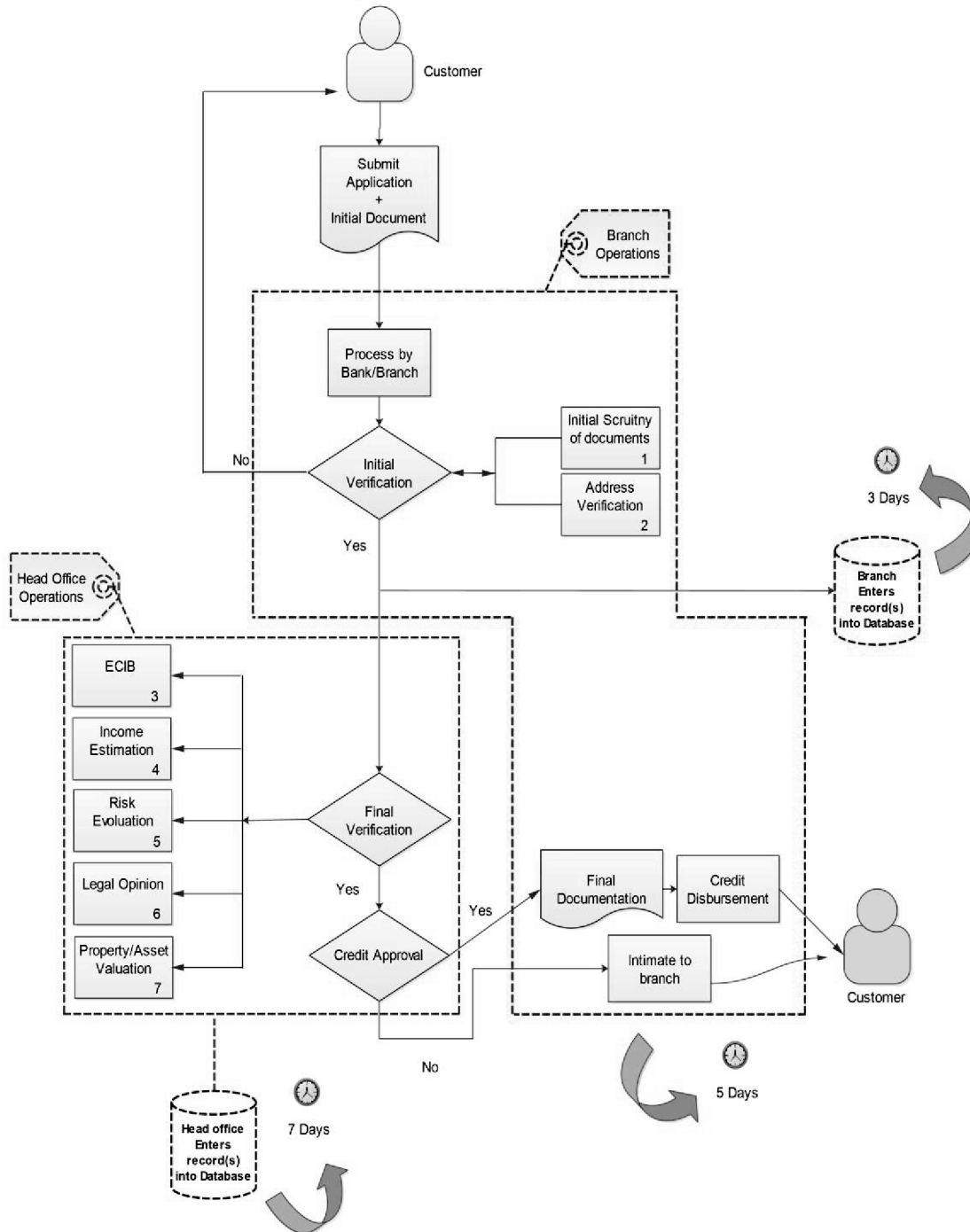


Figure 2: Proposed Process Model for Financing

Proposed financing approval process in Islamic Banking sector of Pakistan

The proposed finance approval process is given below. It is different from the current process, this new process will reduce the overall time and cost of the financing. Numerous other points included in the proposed process model are based on various countries' models and expert opinions. The following steps will be involved in the process.

Step 1: Application Form

Currently, a few application forms are available on their websites and few banks provide the form when an interested client visits the bank/branch for financing purposes. After getting the form from the website/bank, the client has to submit the form carefully duly filled, in which he/she has to fill all mandatory fields after carefully reading the terms and conditions, which are mentioned on the application form. It is recommended that all banks must online their all application forms and checklist on their website because the majority of SME owners have internet facilities in their office and they prefer to get initial forms and instruction from the website.

Step 2: Initial Payment

The client has to submit the initial payment, which is necessary for further process on the application. The initial payment is compulsory to ensure the seriousness of the client because later on, the bank has to process the application using human resource power. Currently, the banks are charging around Rs.5000 fee for processing; it is a cost for SMEs whether their finance is approved or not. It is a suggestion for banks and State Bank of Pakistan also that the banks have to exempt the above cost of promoting the financing access and it is not a huge cost for banks.

Step 3: Required Documents

Each client must attach all the required documents for verification and checking the originality of a client. The majority of banks require the following personal and income documents.

Personal Information (Documents)

- Copy of Applicant's CNIC
- Copy of Co-Applicants CNIC (In case of Partnership)
- 2 latest passport-size colored Photographs of Applicant/Co-applicant
- Copy of CNICs of legal heirs
- Copy of recent credit card bills (if applicable)
- Copy of professional degree/certificate (if applicable)
- Copy of Rent Agreement (if applicable)

Income Information (Documents) For Business/Self-employed/Professional

- 3 years proof of business (e.g., Bank Certificate/Tax Return)
- Copy of NTN Certificate & last three years' tax returns
- Bank Statement of Business Account for last the 12 months
- Copy of Partnership deed (in case of Partnership)
- Professional Association Membership Certificate/Practice License (if applicable)

Personal information seems to be good for every applicant and business because by these documents banks can analyze the originality of the applicant and business. For income confirmation banks get the minimum three years of business proof, it is no problem for old businesses but those businesses, which are less than three years old or recently started banks not considered them for financing. It is a recommendation for banks that instead of three years condition they remove this condition or revised it as one-year proof of business.

Step 4: Initial scrutiny of documents

After receiving the completed application form along with documents, the bank representative (Relationship Manager) will start the initial scrutiny of the client's documents. In initial scrutiny, the RM will check the all-necessary documents (mentioned in the above list) that are attached to application or not.

Step 5: Address Verification

The client has to submit the above documents after completion. The bank will start scrutiny of the initial documents to ensure the status of the client and verifies the address of the office, residential and the addresses of references provided by the client. In our proposed model the branch will fulfill the above five steps at the initial stage. The branch will receive an application along with complete documents. After receiving the documents, the branch will scrutinize them initially. In the next step, the branch will verify the address of the business rather the business is actually existing or not. While the branch is satisfied with the business documents and address verification, it will enter that application into the central database. If bank is not satisfied with the client's documents (deficiency in documents) or address is not valid then they inform the client at the initial stage. A central database is a suggestion, in which the branch will enter all record of the client. As per our proposed model, the bank takes a maximum of 3 days for verification at the initial stage because at this stage only documentation and address verification are involved.

Step 6: ECIB

It is mandatory for every bank to get the client's credit history from Electronic Credit Information Bureau (ECIB) if the financing amount is more than Rs. 500,000. The bank will get the credit history of the client to make the decision for financing purposes.

Step 7: Income Estimation

The majority of the external consultant of banks, contact with client for businessman/Self-employed/Professionals in order to determine the true income to help them to determine the maximum possible financing that will be provided to the client.

Step 7: Risk evaluation

The banks will also evaluate the risk that is attached to financing. Risk evaluation is an important factor that banks cannot ignore.

Step 8: Legal Opinion

The banks will also get the legal opinion by a professional to verify the fairness of property documents for maximum financing to the client.

Step 9: Property Valuation

After getting the legal opinion by professional selected Valuation authority, the banks assess the property to decide the fair market value.

The head office of that branch will perform the verification task like ECIB, income estimation, risk evaluation, a legal opinion from experts and property evaluation by an evaluator. If the Head Office/Regional Office is not satisfied with anyone's requirement, it can reject the financing to business. In case the Head office/Regional office is satisfied with all the steps (nine), finance approval decision will be intimate to the branch by using the same online central database. In case of rejection, the HO/RO will also inform by following the same procedure. As per our proposed model, the Head Office will take a maximum of 10 days for verification at this stage.

Step 10: Final Documentation

After the successful completion of all the above steps and sanction of finance, the client will be necessary to visit the branch for the final signing of an agreement and other legal documents.

Step 11: Transfer of Property and Loan Disbursement

After completion of all the formalities, Credit Administration Department (CAD) will finally securitize the documents along with security obtained and if, in order, they will issue the Disbursement Authorization Certificate (DAC).

Step 12: Loan Disbursement/Product

When all the documentation process will complete, the branch will finally disburse the finance or provide product that is required by a client. As per our proposed model, the bank will take A maximum of 5 days for final documentation and the disbursement of financing at this stage because at this stage only final documentation and disbursement of financing are involved.

DISCUSSION

The challenges faced by the Islamic banking sector and small and medium enterprises sector while giving and receiving finance are identified in this study. The majority of problems are those which have been highlighted by different researchers and different studies conducted by Islamic funding organizations, but numerous of the problem specially related to Pakistan are highlighted in this study. Ahmad et al., (2011) noted that the SME sector is lacking in the financing, cash flow, security, education, information deliverance, incompetent marketing abilities, insufficient standardized dealings and shortage of capital goods and greater part of the population is opposing towards change. Some problems which are being faced by Islamic Microfinance are: the high-priced products are offered, operational incompetence, shortage of qualified and skilled management and organization, poor management for business risks, and their incapacity to reach the poor (Akhtar et al., 2009). There is a dire need for standardization and financial engineering as well as attitudinal uplifting and market participation in terms of securities (Shabrawy, 2011). The lack of collaterals, previous financial information and credit history hinders the financing of SMEs. The challenge with the Bai al Inah and Bai al Dayn is their acceptance in Pakistan and their introduction to the micro-entrepreneurs instead of big investors (Rosly & Sanusi, 2011).

In 2009 the report given by IFC factor of renting out assets is good for SMEs because that situations in which proper financial documents are not prepared and in case if want to get a loan or credit facility from banks or any other financial institutions that protecting rights of creditors and other laws etc. Because leasing that only assets transfer from lesser to the user means lessee then in case lessee default payment or rent then lesser put back assets into his custody. Muslim scholars believed that banks should mobilize their funds more based on of profit-and-loss sharing (PLS or uqud al-ishtirak) type of finance as opposed to debt finance mode. And the argument is based on the fact that PLS is theoretically superior (Shah & Hassan, 2015) to conventional debt-based banking activities. Also, the worst part is when the dominant use of debt financing would only portray that Islamic bank to be similar to the conventional interest-based banks (Ahmad et al., 2011). Quraishi (2012) conduct a study in Pakistan that reveals that 51% of SMEs found very hard to finance from Bank, 31% don't have a Bank Account and 85% drives towards Informal Sources of Financing.

Gallup Pakistan and Government of Pakistan (2013) with the association of Work Bank conducted a survey in Pakistan, according to their survey there are around two million small-scale businesses in Pakistan. The study also found that although SMEs are contributing 11% in our GDP, but this sector is facing many problems. The results of our study are almost showing the same problems but different in percentage. Lack of financing, less knowledge, unskilled labor, lack of business knowledge and lack of government attention are the major problem that currently SMEs are facing in Pakistan.

In Pakistan, the Islamic banking sector is facing challenges to finance the SMEs as if most of the developing countries of the world, which are discussed many times (Smith et al., 2003). The biggest challenge is awareness among the public about the prohibition of Reba in banking and financial business. Until the people get to understand the drawbacks of Riba, the migration from a Riba-Based to Riba-Free Banking would not be possible. Only when demand is created for Riba Free Financing and Banking is created the giving end that is the Islamic Finance Institution as well as the receiving end the SMEs have a better future. Otherwise, the challenges to cater to the needs of Riba Free Banking Products would never be controllable.

To increase the production capability and self-employment opportunities in the country, small and medium enterprises (SME) sector has great potential. Sub-sector could lessen the serious issues of unemployment and low level of exports by enhancing the role of the financial sector in the development of SME. SME Financing Funds' may be introduced by banks with various geographical locations. A network of such funds could be set up by the corporate sector and the commercial banks under the guidance of SECP by establishing institutions under organization arrangements or otherwise.

According to the recent survey conducted by State Bank of Pakistan in 2013, Punjab and Sindh SME's financing share is 90% (where Punjab 64.07% and 25.93% in Sindh) while only 10% share is taken by Balochistan, Khyber Pakhtunkhwa, Gilgit Baltistan, and Azad Jammu and Kashmir.

According to Rosly and Sanusi (2011), the business owner is facing different financing barrier, they just imagine that if they could not access to finance, they could not able to run the business activities. If the loan not provided by the bank to different businesses or specially SMEs, owner will worry and the profit of the bank will decline. To overcome this hurdle by the State Bank of Pakistan and provide a loan in easy rules and regulations and government takes the different steps to remove all barriers for accessing finance to promote not only business growth as well as profit maximization of the bank. The study of Tanveer (2001) describes that banks and other financial institutions play an important role in financing these types of businesses. The concept of SME'S established in Pakistan since 1972 (in the regime of Mr. Zulifquar Ali Bhutto). In 2010, according to latest report given by the State Bank of Pakistan, 88% loan of the SME sector is in Punjab and Sindh (62% in Punjab, 26% in Sindh) and rest from all other areas of our country Pakistan. Another report in highly observed that banks and other financial resources providing credit facility to SME's sector decline by almost 21% the ultimate result to the economy of country from high level to slow level economy. It was also noted that the reasons for loan default were improper management of the working capital of the company.

Major of the banks have separate providing loan to the SME'S sector. Some financial institutions in Pakistan work on providing loans or finance to the SME'S for better growth and development of the business. The major portions of providing loans to SMEs are banks. Banks are the main and important source of providing loan to the SMEs. Banks also have developed different policies to provide loans to SMEs in a better way. (Goedertier et al., 2013).

The above-proposed model is proposed for SMEs financing through Islamic banking in Pakistan, in this model financing process is divided into two parts i.e. head office and branch tasks. By using the above model, the SMEs' financing can be boosted and their demand can be achieved within 15 days instead of 30 or above days.

CONCLUSION

Islamic banking and SME both sectors are very important in the Pakistan because a majority of population (98%) in Pakistan is Muslim and a majority of the business enterprises are small and medium scale (98%). From 2002 to 2015 the Islamic banking sector shows the significant growth in Pakistan and the same SMEs in every year continuously contribute to the Gross Domestic Products approximately 40%. If the Islamic banking sector and SMEs both create a liaison in Pakistan, a number of the benefits can be achieved by this process. The State Bank of Pakistan can play an important role in this regard by making an easy process and fewer conditions for financing to SMEs. Although the SMEs owners are doing traditional business they require finance every time to manage the business activities in the short, medium and long term.

Currently, Islamic banks and other conventional banks take around 30 days for financing approval, SME bank also takes 30 days for credit approval for SMEs. Based on data collected, Islamic banks must provide fast track services and special services counter for SMEs. The Islamic banking sector should reduce the documentation requirements and the transaction cost to attract the more SMEs. The proposed model of our research is showing a mechanism by following that the Islamic banking sector can reduce the financing process from thirty days to fifteen days. This model is based on the data collected from both sectors and meeting with a top level of management from Islamic banking and owners and decision-makers from small and medium enterprises sector.

In doing so, the banks should be aggressive in promoting competitive Islamic SME-financing products and introducing more easily accessible products to smaller enterprises. Efforts should also be given to the development of new financing products that comply both with the needs of the enterprises and the requirements of distributive justice in Islam. This could be realized by the introduction of more equity-based financing apart from the already abundantly available fixed mark-up modes of financing.

There is no facility provided by any conventional and Islamic banks in Pakistan to help new businesses, so Islamic banks should take initiative to develop and promote the SME sector. Sharia-based compliance products that can help entrepreneurs in the industry. Islamic banks should abide by the guidance of Allah Almighty and His prophet Muhammad (S.A.W). The process model that is proposed, if Islamic banks applied in their banks, will be helpful for the boost up of the financing process in Pakistan. The State Bank of Pakistan should take more and quick steps for the promotion of SME sector because it is an important and growing sector of the economy.

In Pakistan, the research study faces difficulties in Islamic finance to the development of SMEs. The SME sector provides support to the economic growth and also helps to reduce the unemployment situation in the country. The research of this study shows that Islamic finance facing many problems in Pakistan and due to this weakness result to provide the unfavorable situation to the development of the SME's in the country.

The present study findings may help the State Bank of Pakistan to re-consider the present policy of SME financing through Islamic banks. By creating a centralized financing application system, the banks will be able to provide quick financing facilities to SMEs in Pakistan like other countries.

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