

UNIVERSITY OF GLOUCESTERSHIRE

**FINANCING FOR SMALL AND
MEDIUM ENTERPRISES: THE
ROLE OF ISLAMIC FINANCIAL
INSTITUTIONS IN KUWAIT**

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By

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Author background

Qualifications

I have a Master's degree in the Principles of Jurisprudence (Uşūl al-fiqh), specialising in Tawarroq banking in Islamic banks, and am a Licentiate in sharia and Islamic Studies, both qualifications obtained from the University of Kuwait. I also have a Diploma in sharia supervision from the Cambridge Institution in London, and a Diploma in Investment Expertise from the American University of London, both of which were organized by the Bait Almashoura Company.

Occupation and positions held:

I have worked as a Director of the sharia Supervisory Department for the Dimah Capital Co. (2014), a sharia auditor for the Investment Dar Company (2005-2008), a Senior sharia supervisor for the Investment Dar Company (2008-2013), and an Assistant Director of the Sharia Supervisory Department for the Investment Dar Company (2003-2014).

My ten years' work experience in banks and Islamic finance institutions has helped me to recognize the reality of the latter, including the most important obstacles faced by those institutions, and established a network of connections with the managers of Islamic institutions and members of the sharia board. My previous studies, as a research fellow, enabled me to identify the purposes of sharia (law) and to appreciate the provisions of transactions in Islamic law. This has had a significant impact on the clarity of my vision surrounding the philosophy of Islamic finance. In addition, these experiences have contributed significantly to the establishment of solutions and perceptions which could be used in the development of the Islamic finance sector.

Papers in conference proceedings

Alhabashi, K., Jones, T., Hussainey, K., Sefiani, Y. (2014). ROLE OF 'QARD HASSAN' IN FINANCING SMEs: A PERSPECTIVE FROM Kuwait. The 4th Islamic banking and finance conference (IBF, 2014), Lancaster University.

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DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution on the United Kingdom or overseas.

Signed... ..

ABSTRACT

Small and medium enterprises (SMEs) play a vital role in the growth of the economy and have become a major concern for government and policy makers in developed, as well as in developing countries. Given the stated importance of SMEs in generating economic growth in Kuwait, it is essential that SMEs have access to sources of finance. However, access to finance is one of the major constraints to SME development, and is frequently mentioned in the entrepreneurship literature. This study aims to evaluate how Islamic financial institutions can support SMEs in Kuwait.

The study adopts a qualitative approach that was articulated through a case study design. The case here is the phenomenon of SME financing as enacted by two organisational forms. This research uses two comparative cases; the cases are formed around the nature of the financing organisations in Kuwait and the interaction of SME owners with these organisations. Twenty face-to-face semi-structured interviews were conducted with members of three different groups: SME owner-managers, managers of financial institutions, and Sharia board members to explore their opinions and perceptions with regard to the role of Islamic finance for SMEs.

The main findings indicate that, in Kuwait, access to finance remains a principal challenge for SMEs. Furthermore, collateral is one of the main problems they face when obtaining finance from Islamic banks. The findings suggested that without government support, the banks would not be able to finance SMEs, and therefore, specialised SME finance institutions were more compatible than other Islamic banks with small and medium enterprises. In addition, the study showed that Islamic finance instruments were more suitable than commercial instruments. It also showed that integrating *zakat*, *charity*, *waqf*, and *qard hassan* would be helpful to the SME sector in Kuwait.

The findings add to the understanding of the role of Islamic finance and contribute to knowledge about SME development, using Islamic finance methods, in Kuwait. This could encourage the government to adopt related policies in order to improve access to finance for SMEs.

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LIST OF ABBREVIATIONS

AAOIFI: Accounting and Auditing Organization for Islamic Financial Institutions
APEC: The Asian-Pacific Economy Cooperation
BIS: The Department for Business Innovation and Skills
BOT: Build, Operate, Transfer
EU: European Union
GCC: Gulf Cooperation Council
GDP: Gross Domestic Product
IBK: Industrial Bank of Kuwait
IFIs: Islamic Financial Institutions
IMF: International Monetary Fund
KCB: Kuwait Central Bank
KFH: Kuwait Finance House
KIB: Kuwait International Bank
KNPC: Kuwait National Petroleum Company
KOC: Kuwait Oil Company
KPC: Kuwait Petroleum Corporation
KPI: Kuwait Petroleum International
KSPDC: Kuwait Small Projects Development Company
KUNA: Kuwait News Agency
KWD: Kuwait Dinar
MBD: Million Barrels per Day
MGRP: Manpower and Government Restructuring Programme
MOU: Memorandum of Understanding
MRS: Market Research Society
NBK: National Bank of Kuwait
OECD: The Organization for Economic Co-operation and Development
PACI: Public Authority for Civil Information
PIC: Petrochemical Industries Company
SCB: Saving and Credit Bank
SMEs: Small and Medium sized Enterprises
USD: United States Dollar

Chapter 1 : Introduction

1.1 Overview

Small and medium enterprises (SMEs) play a vital role in economic growth and have become a major concern for government and policy makers in developed, as well as in developing, countries (for example, Storey, 1994; Chen, 2006; Hassan, 2008; Inyang, 2013; Ali, 2013; Bazza, Maiwada & Daneji 2014; Armeanu, Istudor & Laches, 2015). Governments have stressed the importance of SMEs for economic growth, particularly because of their significance in the private sector (Mole, 2002; Ayyagiri, Beck & Demirguc, 2005; Berger & Udell, 2006; Riding, Madill & Haines 2007; Sadi & Henderson, 2010; Cowling, Liu & Ledger, 2012; Karadag, 2015).

Although economies differ from one another, SMEs in Kuwait still play a role in the country's economy in many ways. However, these enterprises face several challenges and access to finance constitutes a major constraint to their development (Al-wugayan & Alshimmiri, 2010; Alhajeri, 2012).

This research seeks to understand and explore the role of Islamic financial institutions in supporting SMEs in Kuwait. The first chapter sets out to provide an overview of the study by initially describing the research background and problem. Secondly, research objectives and questions are outlined. Next, The research motivation is presented along with a brief explanation of the methodology used, and this is followed by a statement of the contribution made to the research field. Finally, the chapter provides an outline of the structure of the thesis.

1.2 Research background

SMEs have become one of the key instruments in the economies of most developed and developing countries (Zarook, Rahman & Khanam, 2013; Islam, Yousuf & Rahman 2014; Zubair, 2014; Mohammed, 2015 a). Harvie and Lee (2002) and Beaver and Prince (2004) argued that the contribution of SMEs can be seen from different points of view that relate mainly to the important role they play in relation to job creation, innovation, export, and private-sector production, in developed countries, as

well as in developing and emerging economies. Al-wugayan and Alshimmri (2010) and Emine (2012) declared that many Arab countries have recognised the importance of SMEs in job creation and the development of skilled labour; therefore, many of their governments have formulated policies and programmes to support the growth and success of SMEs.

Given the stated importance of SMEs in generating economic growth within Kuwait, it is essential that they have access to sources of finance. Recently, the Islamic finance industry has witnessed remarkable developments in Kuwait and in the Middle East and South-East Asia (Ahmed, 2010; Gheeraert, 2014; Abdelsalam & El Komi, 2014). This research focuses on Kuwait, which is a member of the Gulf Cooperation Council (GCC) and is one of the world's richest countries in terms of GNP per capita. According to Ahmed (2009), Kuwait has huge financial resources, which include 10% of global oil reserves. It has the potential to become a regional financial centre. It also has a vision to be a financial and trade hub for investment, in which the private sector leads economic activity. One of the key components in this plan is to develop conditions for SME creation and growth (Aljazzaf & Almutairi, 2009; Khan & Ishaq, 2008; Alhajeri, 2012). However, SMEs in Kuwait have received attention in the last five years following failures in the financial support programmes which focus upon the SME sector (Al-Wugayan & Alshimmiri, 2010; Al-Najem, 2014).

The State of Kuwait hosts more Islamic financial institutions within the 'Top 500' list than any other country in the world (Kettell, 2010). It has been ranked third in terms of the holding of Islamic banking assets, worth US \$22.7 billion (2008). It therefore has a variety of Islamic financial institutions, amongst them, the Commercial Bank, Investment Bank, the Investment Company, and the Asset Management Company, and some of the largest non-Islamic institutions have sharia windows that operate to provide sources of SME finance.

Given Kuwait's interest in SMEs, it has supported the development of two mechanisms for Islamic financing of SMEs. The first is the creation of specialised Islamic institutions to finance SMEs, and the second is the encouragement of products offered through general Islamic banks. In both organisational forms, there are a variety of instruments

that are offered to meet market needs. These conform, in the main, to the patterns seen in relation to Islamic finance elsewhere (Alhajeri, 2012, Al-Najem, 2014).

1.3 Research problem

Although Islamic finance is growing rapidly all around the world and the ideas related to Islamic banking and finance are now 30 years old (Gheeraert, 2014), Islamic banking theory is still not well developed. Although there is a wealth of literature around Islamic finance (Aggarwal & Youssef, 2000; Ahmed, 2009; Ahmed, 2010; Al-Jarhi, 2013; Gheeraert, 2014; Abdelsalam & El Komi, 2014) and around finance in general for SMEs (Hamilton & Fox, 1998; Beck, Demirgüç & Peri, 2011; Daskalakis, Jarvis & Schizas, 2013; Odunayo, 2014) literature that draws and connects these two areas together is limited (Awad, 1994; Shaban, Duygun, Anwar & Anwar 2014). An example of this disconnection concerns trading which is one of the most common activities for Islamic banks. While traditional banks simply financed businesses by providing funds, Islamic banks are forced to become involved in the process of selling and buying goods in accordance with the trade rules prescribed by Islamic law. They are entitled to profit by undertaking commercial risks such as those involved in real sector business (Ayub, 2007; Al-Jarhi, 2013). In the absence of the interest system in business transactions, there are types of financial contracts which are presented in Islamic jurisprudence as alternatives to Riba.

Moreover, the literature on Islamic banking and finance has focused on a few credit-based instruments (Abdelsalam & El Komi, 2014) suggesting that research in the field of Islamic finance is still lagging behind. The overriding concern in inventing or adapting new financial instruments has been meeting the sharia (Islamic law) requirement legalistically while the *maqasid Sharia* (objectives of Islamic law) has not received due attention (Siddiqi, 2006; Syed & Hasan, 2015). All business and finance contracts in the framework of Islamic finance have to conform to Sharia rules and aim to meet the objectives of Islamic law (Ayub, 2007; Ngalim & Ismail, 2015).

Due to the scarce literature, that links Islamic finance and finance in general for SMEs and given the lack of supporting empirical evidence on the Islamic financing of SMEs,

particularly in Kuwait, it is crucial and timely to examine the role of Islamic finance in SME development in Kuwait.

1.4 Research objectives and questions

The main aim of this study is to evaluate how Islamic financial institutions can support SMEs in Kuwait. In order to achieve this aim, the following three objectives were set:

1. To critically evaluate the financing problems and challenges facing SMEs in Kuwait.
2. To review how Islamic financial institutions meet the needs of SMEs in Kuwait.
3. To explore how Islamic financial institutions can develop further to meet the needs of SMEs in Kuwait.

In relation to the objectives of the study, this research intends to address the following questions:

1. What financing problems and challenges do SMEs encounter in Kuwait?
2. How do Islamic financial institutions meet the needs of SMEs in Kuwait?
3. How can Islamic financial institutions develop further support for SMEs in Kuwait?

1.5 Research motivations

The prime motive for conducting this research is the limited literature that draws Islamic finance and finance in general for SMEs together (Awad, 1994; Ali, 2013; Oseni, Hassan & Matri, 2013). Furthermore, there is limited research about Islamic finance for SMEs in Kuwait. Alhajeri (2012) proposed that further research should be done to expand the existing knowledge of SMEs in Kuwait, especially with regard to the financing problems they encounter.

The study was conceived during the author's time as a Dimah capital employee. As a manager in control of sharia concerns, I witnessed a substantial attention to SMEs in Kuwait. Al Wagayan and Alshimmiri (2010), Alhajeri (2012), and Al-Najem (2014) suggest that in the last five years the Kuwaiti government has shown particular

concern over the SME sector, especially in the wake of the failures of several financial assistance programmes which were directed toward the establishment of new SMEs. In February 2014, the Kuwaiti government implemented the final legislation regarding the national fund for sponsorship and development of Small and Medium Enterprises. The new fund will be in place by 2015, and the main aim of the new legislation is to support the SME sector. This has encouraged the researcher to develop a personal interest in investigating the role of Islamic financial institutions in supporting the SME sector in Kuwait

1.6 Research methodology

The research adopted a qualitative methodology to achieve the aims of the study, articulated through a case study design. It used two comparative Kuwaiti SME financing cases, the first case consisting of Islamic Banks and the second consisting of specialised institutions providing finance to SMEs. Furthermore, snowball sampling was used to conduct twenty face-to-face semi-structured interviews with members of three different groups. These were SME owner-managers, managers from the financial institutions, and representatives from the sharia boards. The purpose of the interviews was to explore the participants' opinions and perceptions of the role of Islamic finance in SME development.

1.7 Research contributions

There is a wealth of literature around Islamic finance (for example, Aggarwal & Youssef, 2000; Ahmed, 2009) and on finance for SMEs (for example, Beck et al., 2011; Hamilton & Fox 1998). However, as previous stated there is limited literature that draws these two areas together (Awad, 1994; Smolo & Ismail, 2010; Ali, 2013). Given the stated importance of SMEs in generating economic growth within Kuwait, it is essential that such enterprises have access to sources of potential finance. As far as the author is aware, there is no study about Islamic finance for SMEs in Kuwait. This research bridges this gap and adds value to the existing literature on Islamic finance theory by adding new insights and by being the first research on this level conducted in the context of Kuwait. It also aids the development of SMEs in the economy by

progressing our understanding of how Islamic financial institutions can further support SME growth within Kuwait using Islamic finance methods.

Furthermore, there is a shortage of studies concerning the integration of non-profit instruments such as *zakat*, *charity*, *waqf* and *qard hassan* in support of the SME sector, particularly in the GCC countries. As the GCC countries are considered to be wealthy, these non-profit instruments, that are normally used to alleviate poverty, have not been subject to analysis or study; most studies that have been conducted in this field have been undertaken in very low income countries with the aim of using such instruments to alleviate poverty (Sadeq, 2002; Ismail & Possumah, 2013; Hassan, 2014; Ibrahim & Ghazali, 2014). This study will therefore contribute to the literature, with regard to SMEs in the GCC countries, as they share many similarities in terms of culture and their high incomes. The findings of this research can be used as guidance for other GCC countries. Although the non-profit instruments are in reality mainly used for the eradication of poverty, However Social economy justice and the equitable distribution of income are among their primary goals also. The study found that, in accordance with Islamic law, it would be acceptable to integrate *zakat*, *charity*, *waqf* and *qard hassan* in the support of SMEs in Kuwait.

In Kuwait there are two mechanisms for Islamic financing of SMEs. The first is the Islamic institutions created specifically to finance SMEs, and the second is the encouragement of products offered through general Islamic banks. To the best of the author's knowledge, no existing study makes an evaluation of both mechanisms and compares the two cases. The findings of the study will therefore assist policy makers to decide which of these mechanisms meets the needs of SMEs in Kuwait. More especially, the findings will help the new national fund for sponsorship and development of small and medium enterprises to choose which of these mechanisms they should adopt to support the SME sector.

In addition, as far as the researcher is aware, this is the first study that assesses the new legislation regarding the national fund for the sponsorship and development of small and medium enterprises, which is to be enacted 2015. This research will thus contribute to the body of knowledge by comparing the findings of the study with the

new legislation. By showing the role of Islamic finance institutions in the development of the SME sector in Kuwait, such a comparison will help to make recommendations for policy makers and to develop and put into practice further support for the sector.

1.8 Structure of the thesis

This thesis consists of ten chapters. The following is a brief description of each:

Chapter One is the introduction, which discusses the research background, the problem statement, the research objectives and questions, the research motivations, the research methodology, research contributions and the thesis structure.

Chapter Two reviews the finance sources available to SMEs and highlights the financing obstacles and difficulties faced by these enterprises.

Chapter Three is a review of Islamic finance and the main Islamic finance philosophy.

Chapter Four provides background information on the State of Kuwait in order to contextualise the research. It includes the main features of the Kuwaiti economy, and the structure of both the oil and non-oil related sectors. This chapter also discusses the characteristics of SMEs in Kuwait, and the sources of finance available to them, and it highlights the main challenges they face. The last part of the chapter is concerned with government support for SMEs.

Chapter Five explains the research methodology. It describes the research philosophy, the methodology, and the use of semi-structured interviews as the main instruments. In addition, the chapter discusses the main reasons for choosing this research method, and the advantages and disadvantages of semi-structured interviews. It also highlights the data analysis tools and ethical considerations of the work.

Chapter Six presents the findings of the twelve semi-structured interviews that were conducted with SME owner-managers.

Chapter Seven discusses the findings of four semi-structured interviews that were conducted with bank managers.

Chapter Eight discusses the findings of four semi-structured interviews that were conducted with Sharia board members from the Islamic banks in Kuwait.

Chapter Nine discusses the combined results of the three previous chapters; the semi-structured interviews with three groups – SME owner-managers, bank managers, and Sharia board members.

Chapter Ten presents the conclusions of the study. It then draws upon insights obtained from this research to identify implications for policy and practice. The limitations of the research are acknowledged. Finally, suggestions for future research are discussed.

Chapter 2 : Finance for small and medium enterprises: A review of the literature and theoretical framework

2.1 Introduction

During the last two decades a significant number of researchers around the world have shown a great interest in the SME sector, and have gathered their efforts to analyse and research SMEs due to the recognised importance of this sector for economic development, and because of its significance to the private sector (Berger & Udell, 2006; Ayyagari, Beck & Demirgüç, 2005; Al-Wugayan, Rao & Al-Duail, 2006; Bazza et al., 2014).

SMEs are a key source of economic growth (Sadi & Henderson, 2010), whether in developed or developing countries and are the backbone of all economies. In Saudi Arabia SMEs represent more than 90% of enterprises providing 51% of jobs in the private sector and contributing 22% of GDP (Mohammed, 2015 b). The importance of SMEs is now widely recognised as they play a key role in creating new jobs. SMEs account for over 95% of firms (OECD, 2006; Karadag, 2015). They are responsible for between 60-70% net of jobs created in OECD countries (OECD, 2006). Small businesses are particularly important for bringing innovative products or techniques to the market (OECD, 2006; Sadi & Henderson, 2010; Shaban, et al. 2014).

This chapter reviews the existing literature on the financing of SMEs to provide the necessary background for the present study.

The chapter explores the multiple definitions of SMEs, and why they are important to the economy; focuses on the sources of finance which are available to SMEs; highlights the finance obstacles and difficulties faced by SMEs; highlights the theoretical framework; and finally sums up the main findings of the literature review and shows how they are related to the aims of this study.

2.2 Definition of SMEs

There is no universally agreed definition of an SME. The definition varies from country to country, and in many cases there is a multiplicity of definitions within the same country mainly because of the spread of SMEs over different sectors (Naimy, 2011; Zeitouni, 2012). The problems of defining SMEs and how to measure their size have been widely recognised by researchers. In general, they are difficult to define because there are definitions that take into consideration only quantitative measures, such as number of employees, annual turnover, invested capital, market share and value added, and those which consider only qualitative criteria, such as ownership and management (a simple organisational structure), as well as definitions which are a combination of both.

One of the most important government inquiries that have focused on the importance of the role of small businesses was the Bolton Report (1971), which adopted a number of different statistical definitions. It recognised that size is relevant to sector - that is a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it.

Similarly, it recognised that it may be more appropriate to define size by the number of employees in some sectors but more appropriate to use turnover in others. Table 1 shows the statistical definition using the number of employees in some sectors.

Table 1 The Bolton Report definition of the small firm

Sector	Definition
Construction	25 employees or fewer
Manufacturing	200 employees or fewer
Retailing	Turnover of £50,000 or less
Mining and quarrying	25 employees or fewer
Services	Turnover of £50,000 or less
Miscellaneous	Turnover of £50,000 or less
Road transport	Five vehicles or fewer
Wholesale trade	Turnover £200,000 or less
Motor trades	Turnover of £100,000 or less
Catering	All excluding multiples and brewery managed houses

Source: The Bolton Report (1971, p.14)

1- Definitions based on the employment standard

Ardic, Mylenko and Saltane (2011) suggested that the number of employees is the most common measure used in the definition of SMEs. Arafat and Ahmed (2012) specified that numbers of employees and capital investment or fixed assets are the variables most commonly used to define SMEs. Curran and Blackburn (2001) found that the number of employees is often used because it is a simple definition. Quantitative definitions are objective and comparable, and the data collected lends itself to statistical manipulation. Employment data is also convenient because it is collected anyway for national statistical purposes and so already exists for researchers to use.

Employment is the standard most often used in OECD member countries for determining firm size. SMEs are usually defined as firms with fewer than 500 employees, although a number of countries, including those in the European Union, use a lower cut-off point of 250 (OECD, 1997).

Table 2 SME definitions

Country	Maximum number of employees
Azerbaijan	5
Germany	250
Korea, Rep.	1000
Malaysia	150
Oman	99
Spain	250
Sudan	10
United Kingdom	250

Source: Ardic, Mylenko and Saltane (2011, p.21)

The World Bank defines SMEs using the following indices (Ayyagari et al., 2005; Ardic et al., 2011):

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

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

Curran and Blackburn (2001) argued that these definitions, which are based on the number of employees, are open to criticism and have to be set against some serious disadvantages. One of the most obvious disadvantages of the employment standard is that a firm belonging to one sector will require a different number of employees to a firm in another sector (Curran & Blackburn, 2001). For example, a small oil refinery might employ several hundred people (and be capitalised at several million pounds). Can this be compared with a small independent garage that employs three people besides the owner (and has a capitalisation of perhaps 150,000 pounds)? Therefore, the process of defining a small firm according to the number of employees is complicated.

In addition, Curran and Blackburn (2001) pointed out that the apparent simplicity of the number of employees as a measure is becoming more problematic in practice. Researchers should take into account the number of part-time employees, because, in the UK for instance, full-time employment is becoming less common. Firm A, for example, might employ mostly part-timers who work on average 25 hours a week, whilst firm B might employ the same number of full-time employees who work a 35-hour week; such differences could affect the accuracy of the measure. They suggested that although this definition is very simple to use and popular, it should be used with some care.

2- Definitions based on turnover

The United Kingdom has two definitions for SMEs: the national statistics definition is in line with the employment standard and says that a firm with less than 250 employees is considered an SME, but the financial institution definition is based upon turnover of either up to GBP 1 million or up to GBP 25 million (OECD, 2012).

Curran and Blackburn (2001) suggested that turnover is an attractive alternative measure of size. However, it has the same problem as employment, but worse. Turnover, like employment, has sector characteristics so a small independently owned retail outlet selling newspapers and cigarettes, for example, could reach an annual

turnover of less than £100,000 but a small precision instrument manufacturer, selling throughout the UK and abroad, might easily have a turnover of £2,000,000 or more a year, which is twenty times greater.

3- Definitions based on the binary or bilateral standard

The bilateral, or double, standard is the one used by many countries to define SMEs.

European countries use the binary standard, which takes into account the number of employees, and the turnover or annual balance sheet total. The following Table (3) shows the EU definitions for SMEs.

Table 3 The EU definitions for micro, small and medium enterprises

Company category	Employees	Turnover	or	Balance sheet total
Micro	<10	< € 2 million		< €2 million
Small	<50	< €10 million		< € 10 million
Medium	<250	< €50 million		< €43million

Source: Annual report on European SMEs final report (2014, p.10)

SMEs are defined in EU countries as businesses which employ fewer than 250 workers and have an annual turnover of fewer than 50 million Euros, and/or a balance sheet total of lower than 43 million Euros. They include three classifications – micro enterprises, small enterprises and medium enterprises.

The Asia-Pacific Economic Cooperation (APEC) member counties use a different classification when defining SMEs, as follows:

Table 4 Summary of the main definitions of SMEs in selected APEC economies

Country	Definition of SME	Measure
Thailand	Manufacturing: Small enterprises <50 employees. <20 million baht of investment capital (not including fixed assets) Medium enterprises. 50-200 employees. 20-100 million baht of fixed assets, 20-100 million of investment capital (not including fixed assets)	Employment capital fixed assets
USA	Manufacturing: <500 employees Non-manufacturing <US \$ 5 million in sales	Employment sales
Vietnam	Manufacturing and Non-manufacturing: Small enterprises: <30 employees and <1 billion dong in capital Medium enterprises: 30-200 employees and 1-4 billion dong in capital	Employment capital
New Zealand	Up to 50 employees	Employment
Philippines	Small enterprises: 10-99 employees, and 1.5-15 million in assets Medium enterprises: 100-199 employees and 15-60 million in assets	Employment assets
Singapore	Manufacturing<: S \$ 15 million in fixed assets Services: <200 employees, and fixed assets < \$ 15 million	Employment fixed assets

Source: Harvie and Lee (2002, p. 5)

Egyptian Small Enterprises law describes a small enterprise as a firm or individual engaged in economic activity, production, service or trade with capital ranging between 50 thousand and one million Egyptian pounds, and with not more than 50 workers (Alhajeri, 2012).

The Gulf countries also have many different definitions for SMEs, and sometimes there are various definitions for the SMEs in a single country. Table 5 shows the definitions for SMEs in GCC countries.

Table 5 Criteria used in the Gulf States for defining small businesses

Body	Project	Criteria
Bahrain (Development Bank)	Small	Capital assets not more than 200,000 Bahraini Dinar (DB)
	Medium	Capital assets not more than 10m DB
	Large	Capital assets more than 10m DB
Bahrain (SME Unit)	Small	Investments from \$500,000 to \$1m
	Medium	Investments from \$1m to \$5.5m
	Large	Investments more than \$5.5m
Kingdom of Saudi Arabia (Jeddah Chamber of Commerce)	Small	Investments less than 3.75 m. SR Employees less than 30
	Medium	Investments from 3.75m to 20.6m SR Employees from 30 to 60
	Large	Investments more than 20.6m SR Employees more than 60
Kingdom of Saudi Arabia (Saudi Consultation Services)	Small	Investments less than 10m SR
	Medium	Investments from 10m to 100m SR
	Large	Investments more than 100m SR
Kingdom of Saudi Arabia (National Development Fund)	Small	Investments from 1m to 5m SR
	Medium	Investments from 5m to 50m SR
	Large	Investments more than 50m SR
Qatar (Ministry of Energy and Industry)	Small	Investments from 250,000 to 5m QR
	Medium	Investments from 5m to 20m QR
	Large	Investments more than 20m QR
Qatar (Qatar Development Bank)	Small	Investments less than 1.5m QR
	Medium	Investments from 1.5m to 10m QR
	Large	Investments more than 10m QR
Kuwait (Chamber of Industry and Commerce)	Small	Employees less than 10
	Medium	Employees from 10 to 50
	Large	Employees more than 50
Kuwait (Public Authority for Industry)	Small	Employees less than 40 Capital from 50,000 to 250,000 DK
	Large	Employees more than 40 Capital more than 250,000 DK
	Large	Employees more than 40 Capital more than 250,000 DK
Oman (Youth Projects Development Fund)	Small	Investments less than 50,000 OR
	Medium	Investments from 50,000 to 100,000 OR
	Large	Investments more than 100,000 OR
Oman (Ministry of Industry and Commerce)	Small	Employees from 1 to 9
	Medium	Employees from 10 to 99
	Large	Employees more than 100

Source: Public Authority for Industry, Kuwait (2006)

Based on the previous discussion, it can be realised that the number of workers or size of capital are the most commonly used means of defining SMEs. However, it should be stated that while it is easy to describe an SME, it is difficult to define one satisfactorily on the international and territorial level. This is due to differences in social and economic structure from one country to another.

Naimy (2011) found that several countries, particularly New Zealand, Hong Kong and Lebanon, do not have an official definition for SMEs. Although Kuwait has many

organisations that support SMEs, there is no agreed definition for such an enterprise. Some organisations use the employee numbers standard and some use the capital standard while others use a combination of the two to define an SME. The Kuwait Chamber of Commerce and Industry defines small projects as those which employ less than ten workers, whereas, the Trade and Industry Ministry describes a small project as one with capital between 50,000 and 250,000 Kuwaiti Dinars (KWD) (1 KWD = 2.25 GDP) (Alhajeri, 2012).

Therefore one question that was asked of the participants was, how would you define the SMEs in Kuwait? From the research point of view, total assets and volume of turnover are more suitable ways of defining Kuwaiti SMEs. However, for this study the research will use the capital value standard as a definition and we can conclude that a small enterprise is one with capital between Kuwait Dinar (KWD) 50,000 and KWD 250,000, and that a medium sized business has capital between KWD 251,000 and KWD 500,000.

2.3 The role and importance of SMEs

In the small business literature, the importance of SMEs has received considerable critical attention because of the role that they play in economic growth and job creation. A considerable amount of literature has been published on this subject revealing contrasting views. Whilst many researchers have argued that SMEs play a significant role in the social and economic development of a country (for example, Storey, 1994; Beaver & Prince, 2004; Benzing, Chu and Kara 2009, Al-Disi, 2010; Han, Benson, Chen and Zhang, 2012; Shinozaki, 2012), other researchers have voiced their doubts about the pro-SME view (Pack & Westphal, 1986; Armeanu et, al, 2015). However, in order to grow and contribute more significantly to the economy, SMEs face some obstacles. One of the main obstacles faced by SMEs is the lack of finance (Hassan, 2008)

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

countries, as well as in developing and emerging economies (Harvie and Lee, 2002; Beaver & Prince, 2004; Al-Disi, 2010). Other researchers have chosen instead to support large enterprises and have stressed their advantages. In particular, they have argued that large firms offer more stable jobs than small firms, with positive implications for poverty alleviation. They also suggested that large enterprises may exploit economies of scale which can influence their productivity (Pack & Westphal, 1986).

Al-Disi (2010), Zaitouni (2012), and Karadage (2015) indicated that SMEs have been recognised worldwide as a key source of dynamism, innovation and flexibility, in industrial as well as emerging and developing countries.

According to the OECD (2005), SMEs are responsible for most new job creation in OECD countries and make an important contribution to innovation, productivity and economic growth. In fact, SMEs make a contribution to economic growth and provide important opportunities for employment in developed countries all over the world, accounting for 95-99% of the business population, depending on the country (Muller, Gagliardi, Caliandro, Bogn & Kiltou, 2014; Karadag, 2015). In the EU, 99.8% of all enterprises were SMEs in 2013. Small enterprises make up at least 95% of manufacturing businesses in most economies. In Turkey, they constitute 99.9% of enterprises (Karadag, 2015). In addition, 80% of manufacturers in the United States are SMEs (OECD, 2005).

Beck and Kunt (2006) suggested that SMEs form a large part of the private sector in many developed and developing countries. In the United Kingdom, there were approximately 4 million SMEs, and 99% of these employed fewer than 50 people, whilst these same SMEs accounted for around 46% of private sector employment (Beck & Kunt, 2006; Cowling et al, 2012).

In the United States, SMEs play a vital part in the economy, where they are defined as firms employing less than 500 people and are considered to be the major engine fuelling the economy (Cowling et al, 2012). In 2003, small businesses represented about 99% of all employer firms (OECD, 2005). SMEs employed about half of the private sector and were responsible for two thirds of net new jobs (OECD, 2005). In

fact, between March 2000 and March 2001, small firms added 1.15 million net new jobs (OECD, 2005).

Al-Wugayan and Alshimmri (2010), and Emine (2012), declared that many Arab countries have recognised the importance of SMEs in job creation and the development of skilled labour; therefore, many of their governments have formulated policies and programmes to support the growth and success of SMEs. Alasrag (2007) pointed out the importance of SMEs and the significant role they play in the Arab countries. In Kuwait, the SME sector constitutes about 90% of private institutions, including immigrant labour totaling about 45% of the labour force (Global, 2011).

SMEs can be a source of innovation

A great deal has been written about the relationship between small enterprises and innovation (Ardic et al., 2011; Karadag, 2015). SMEs in China have attained a major role in technological innovation, and have become the driving force for the application of new technological innovation. Chen (2006, p.124) stated that:

“By the end of 2003, China had founded over 100 high-tech enterprise incubators, over 30 university science parks, over 20 enterprise parks for returned overseas students, over 40 service centres for SME technology innovation. All these institutions have provided strong support for the technological innovation of SMEs.”

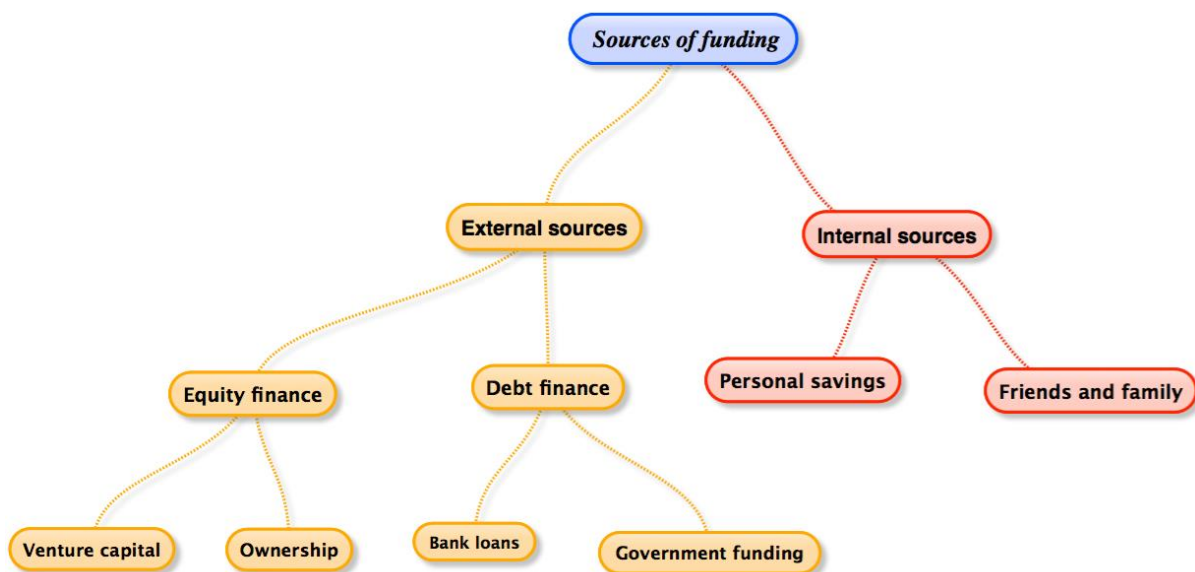
It is concluded that SMEs have attracted attention on a global level, and they play an important and effective role in different economies. Clearly, they are both vital and effective in the national economy of Kuwait, particularly with regard to creating jobs and increasing GDP (Al-Wugayan and Alshimmri, 2010).

2.4 Sources of funding for SMEs

Funding is one of the most important requirements for new SMEs and sources of finance must be available during the establishment of a project. The small business literature shows that lack of funding is one of the biggest and most significant challenges when starting-up and operating an SME (; Naimy, 2011; Peltoniemi & Vieru, 2013; Bazza et al.,2014; Fredriksson and More 2014; Shaban et al., 2014; More, Fink and Kautonen 2012; Karadag, 2015).

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

Figure 2 Main sources of funding for SMEs



There is no doubt that SMEs are of different levels and sizes, and that both new and existing ones need adequate funding, therefore research into policy and its implications are a serious and important issue. It is widely believed that the characteristics of SMEs, such as age and size, make the sources of finance available to them more limited. It is therefore, often recommended that there should be subsidised institutional finance for such businesses (Datta, 2010).

There are several sources of finance available to SMEs. However, despite various breakdowns in the names of these sources, they fall into the groups of either debt or equity financing. Although, equity as a source has received little attention in the literature, it is an important one. Despite emphasis by several authors on fostering access to debt, Churchill and Frankiewicz (2006) argued that credit is not sufficient as

a developmental tool. Therefore, other sources such as equity financing, and in particular venture capital, should be considered.

2.4.1 Internal sources

Compared to large enterprises, start-up SMEs experience considerable difficulty in obtaining external finance from banks and financial institutions (OECD, 2006). Thus, the first stage of starting a business involves internal sources of finance. Many small businesses in the early stages use internal funds, such as personal savings and finance from family and friends, to support the business. The use of external finance is delayed until internal sources of finance are exhausted. (Daskalakis, Jarvis & Schizas, 2013)

2.4.1.1 Personal savings

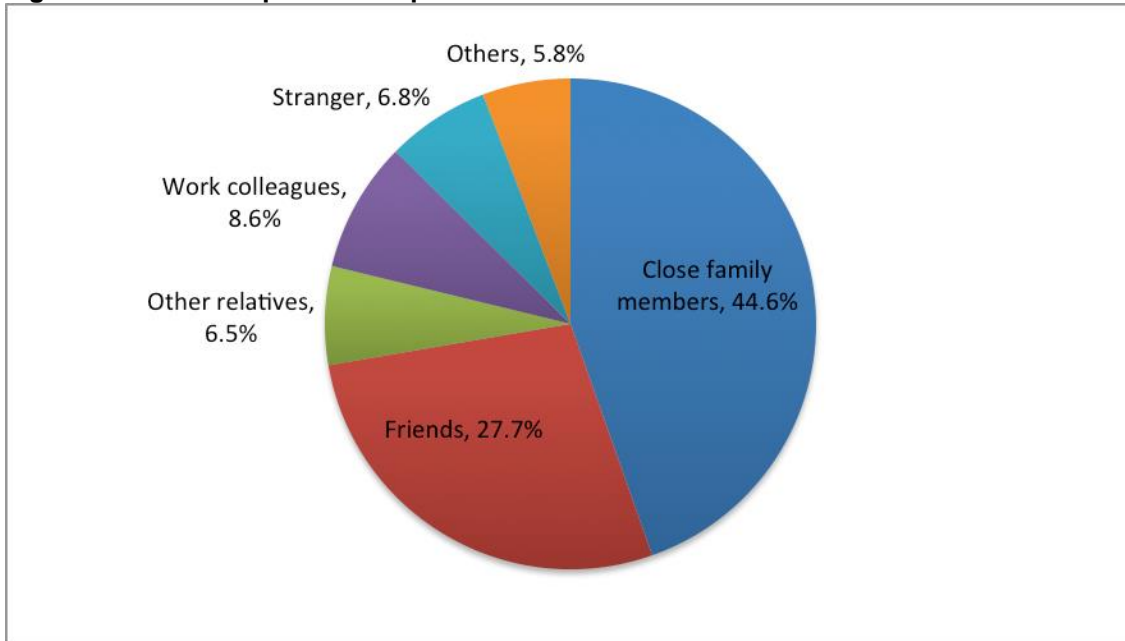
Personal savings are the most common source of finance for most small business start-ups. It is imperative that an entrepreneur has some personal investment in the business, which typically comes from personal savings (Logenecker et al., 2008; Shinozaki 2012; Daskalakis, et al., 2013).

2.4.1.2 Friends and family

Friends and family are the second most common source of early financing. At the outset of a business, usually friends and family are making an investment in the owner-manager as much as in the company. Friends and family put more than just their financial future on the line; they are also putting an important relationship at risk (Logenecker et al., 2008; Burk & Lehmann, 2004). Daskalakis et al. (2013) suggested that SMEs are expected to rely primarily upon their own funds and internal equity finance such as family funds SMEs use external equity financing as a last resort.

Figure 2 shows that friends, close family, and other relatives provide almost 80% of start-up capital from personal sources beyond the entrepreneur's personal savings.

Figure 3 Sources of personal capital for small firms



Source: Entrepreneurship Monitor in Longenecker et al., (2008,p. 124).

2.4.2 External sources

External sources of finance are considered by owner-managers as a last resort, to be used only when internal funds are insufficient. However, SMEs in the early stages of their development face more difficulties than larger companies with regard to obtaining external funding. Credit history, asymmetrical information, potential agency problems, lack of assets and other obstacles limit the access of SMEs to external finance (Aly, Simon & Hussainey, 2010; Cowling et al., 2012; Ali, 2013; Shaban et al., 2014; Bhaird & Lucey, 2009).

Most capital providers specialise in either debt or equity financing. Logenecker et al. (2008) say that the owner-manager's choice between debt and equity financing must be made early in a firm's life cycle and may have long-term financial consequences. Numerous studies have argued that SME owner-managers will prefer debt to new equity mainly because debt brings a lower level of intrusion and, more importantly, a reduced risk of losing control and decision-making power than equity.

2.4.2.1 Debt finance

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

The advantages of debt are:

- 1- The time to secure debt financing is usually shorter than that for equity.
- 2- It is easy to measure the cost of the money (principal and interest).
- 3- Documentation transaction costs would probably be less than for an equity transaction.
- 4- The company is not diluted by new ownership.

The disadvantages of debt are: Burk and Lehmann (2004)

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

The most important sources of debt finance for SMEs are as follows:

2.4.2.1.1 Bank loans

A large and growing body of literature has described banks to be the key external capital provider for SMEs in both developed and developing countries (Vera & Onji, 2010; Ono & Uesugi, 2009; Carey & Flynn, 2005; Abdulsaleh & Worthington, 2013; Abdesamed & Wahab, 2014; Han et al., 2014; Shaban et al., 2014; Zubair, 2014; Karadage, 2015). A number of factors have been identified by Beck, et, al., (2011) to encouragement bank finance for SMEs. These include the great possible for profitability associated with involvement with SMEs, as banks perceive this sector to be unsaturated with good prospects. Additional factor is the possibility to seek SMEs clients through their relations

with their large clients. The banks' involvement with SMEs is also driven by intense competition in other areas such as the large business and retail consumer sectors.

Despite the fact that bank financing may be more expensive than other sources of finance, Keasey and McGuinness (1990) said that it generates a higher rate of return for SMEs. They further concluded that bank finance could help SMEs achieve better performance levels given that these firms employ the funds more efficiently when they are monitored by, and answerable to, the banks.

2.4.2.1.2 Government funding

Government funding is considered to be one of the most important sources of debt finance for SMEs in several countries (Smallbone & Welter, 2001; Hassan, 2008; Benzing, Chu and Kara 2009; Al-Disi, 2010; Lee, Sohn and Ju 2011; Emine, 2012; Bazza et al., 2014). Governments of both developed and developing countries have recognised the challenges facing the SME sector in relation to access to external finance, which may negatively affect its crucial role in achieving national development goals. Therefore, many government programmes and schemes have been implemented to ensure easy access to finance for SMEs. Boocock and Shariff (2005) claimed that such programmes and organisations have the capability to ease the access of SMEs to additional credit. Nevertheless, Riding, Madill and Haines (2007) continued that government finance arrangements for SMEs can be effective only under well-specified conditions. In line with this, Zecchini and Ventura (2009) suggested that, in order for SMEs to be active, such arrangements should aim at dropping the degree of discrimination against SME borrowers in terms of lending costs and unmet demand for funds, since these firms are subjected to credit rationing due to their small size and information asymmetry.

2.4.2.2 Equity finance

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

the risk of losing control over management of the SME. However, the most important sources of Equity finance for SMEs are as follows:

2.4.2.2.1 Ownership

Equity financing involves selling a percentage of ownership in the company to an investor. The main advantage of ownership is that the company does not incur a debt obligation that must be repaid. The investor may be paid a dividend when the company makes a profit. The biggest disadvantage of equity finance is that every time the owner sells shares, the percentage of the company owned by the owner is diluted or falls (Burk & Lehmann, 2004).

2.4.2.2.2 Venture capital

Potter and Porto (2007) and Dakalakis et al., (2013) described that venture capital is a form of finance in which funds are raised from investors and redistributed by investing in high-risk firms that are mostly young or start-up businesses. A variation of organisations exists in the venture capital market, namely: public corporations, small business investment corporations, and private limited partnerships. Compared to other financing sources, venture capital investment is uniformly related with high risk and uncertainty (Dakalakis et al., 2013). As argued by Smolarski and Kut (2011), when providing external finance to firms, venture capitalists encounter a significant adverse selection problem and moral hazard. Berger and Udell (2006) added that another problem that may arise is that of agency, which occurs in the relationship between the venture capitalist and the SMEs owner-manager when the latter lacks sufficient information or skills to make optimal production decisions. This problem might also be combined as information about the project is imperfect and revealed over time (Bergemann & Hege, 1998; Aly, et al., 2010).

Having explored the resources available for financing SMEs, it is clear that they face several challenges and obstacles. These challenges and obstacles are particularly significant in the areas of access to finance, bank loans and business regulations. The next part of this chapter discusses in detail the obstacles to finance and the difficulties facing SMEs.

2.5 Finance obstacles and difficulties facing SMEs

The literature review shows obviously that SMEs encounter many obstacles and difficulties in both developing and developed countries. Commonly, finance obstacles are often mentioned in the small business literature, indeed, according to the OECD, greatest problems faced by SMEs are financial in nature (OECD, 2004, 2006). Access to finance is recognised to be a persistent obstacle to SMEs' survival and growth (Cowling et al., 2012; Dong and Men 2014; Karadag, 2015).

Beck and Kunt (2006) pointed out that although SMEs are an important part of the private sector in many countries, there is clear evidence that small firms face large growth restrictions and have less access to external finance. SMEs are less likely to have access to formal finance than larger firms for several reasons, including: information asymmetry, lack of collateral, and the higher cost of serving smaller transactions (The International Finance Corporation, 2010). This is supported in the works of authors such as Beck et al. (2006), Beck et al. (2011), Cowling et al. (2012), and Shaban et al. (2014) Islam et al., (2014)..

From a literature review on the finance obstacles facing formal financial institutions and SME owner-managers, it is clear that SMEs encounter many obstacles and difficulties in both developing and developed countries. Factors include lack of finance, lack of management skills, market challenges, regulatory issues, and the infrastructure of the country (Emine, 2012; Muller et al., 2014). The following section examines the most important obstacles faced by banking when financing SMEs, and the difficulties most often faced by SME owner-managers.

2.5.1 Obstacles faced by banks when financing SMEs

Banks are considered to be the best parties for providing financial assistance to SMEs (More, Lucas & Kodwani, 2012), but the difficulties that SMEs encounter when trying to access bank loans can take the form of, an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, or a lack of

information on the part of both the bank and the SME. Banks may avoid providing funds for certain types of SMEs, in particular start-ups and very young firms, because of the poor guarantees provided, or firms whose activities offer the possibility of high returns but at a substantial risk of loss (OECD, 2006; Aly, et, al.,2010; Muller et al., 2014).

The Department for Business Innovation and Skills (BIS) suggested in their Economics paper (2012) that there are a number of structural market failures restricting some viable SMEs from accessing finance. This is due to defective or asymmetric information between finance providers and SMEs. It shows itself in a debt-funding gap affecting businesses that lack collateral or a track record.

Al Hamami and Diyab (2005) and Steijvers Voordeckers and Vanhoof (2010) pointed out that formal creditors are usually loath to lend to small businesses; a few reasons for this are cited below:

- 1- Lending to small businesses is subject to problems of scale. The cost of monitoring money lent is much higher for small businesses than for large ones.
- 2- The lender considers lending to small businesses to be riskier. In general, banks tend to grant loans to large businesses to reduce risks and to lower the cost of granting loans.
- 3- SMEs suffer from failure to authenticate their information, such as accounting records and financial statements that reflect the efficiency and the capability of the project.
- 4- SMEs are unable to provide collateral for the loans they are applying for from the banks.

The text below describes the obstacles most often faced by banks when financing SMEs.

1- Moral hazard

Moral hazard is the result of asymmetric information after a transaction takes place. The lender runs the risk that the borrower will become involved in actions that are

unwanted from the lender's point of view, because they make it less possible for the borrower to repay the loan (Adbul Rahman & Dean, 2013; Shaban et al., 2014).

But if debt interest payments are not being made, as under Islamic finance philosophies, the moral hazard problem is embedded within the system (Kettell, 2010; Steijvers et al., 2010).

2- Lack of collateral

Banks and financial institutions require collateral that is many times higher than the value of the loan. Banks and financial institutions fail to provide debt finance to SMEs because of the existence of asymmetric information between the lender and the business. It is hard for the lender to distinguish between high and low risk entrepreneurs without experiencing significant costs. To avoid the costs associated with gathering this information, lenders frequently demand that borrowers deliver evidence of a financial track record and/or collateral as security for the finance (Steijvers et al., 2010; BIS, 2012).

Most SMEs are not capable of providing collateral and in many cases; they are recent start-up projects, which do not have a past record. Therefore, financial institutions, especially banks, consider these firms to be risky in comparison to medium and large enterprises.

Naimy (2011) and Karadag (2015) identified that banks are still the most common sources of SME finance in Turkey, however problems linked to collateral, credibility and financial statements reduce their successful utilisation of bank loans.

2.5.2 Difficulties faced by SME owner-managers

The Bolton Report (1971) and Beaver and Prince (2004) identified the owner-manager as an important defining feature of small firms and as probably the key feature differentiating (apart from the size) between the large and the small firm. Small firms are controlled by their owner or founder, whereas in large firms ownership is separated from management, and is distributed between many shareholders.

SMEs are generally started by entrepreneurs and usually managed by owner-managers with the owner being the main figure in the entire enterprise. The owner of the business is the manager, in charge of the administrative and daily operations. Therefore, there is an absence of management structure as the business is being run by one person responsible administratively, financially and technically.

The main difficulty facing SME owner-managers are as follows:

Marketing and management problems

SMEs face strong competition from other participants in their field. The high cost of marketing operations and the inability of the SMEs to bear such costs are significant obstacles. If SMEs add their marketing or distribution costs to the total cost, this can prevent them from offering competitive prices for their products. Emine (2012) found that knowledge and skills of market analysis, marketing, business planning and management in the Arab region were commonly weak, whilst Mohammed (2015) noted that a shortage of skilled staff and the management of worker retention were huge challenges for SMEs in Saudi Arabia.

Finance for SMEs: A questions of perceptions

Despite the fact that there is a great deal of research which comments about the different financial patterns followed by SMEs, it is noticeable that these studies concentrate on different theories which suggest different approaches. However, there is general agreement on the effect of SME characteristics, as well as those of the entrepreneurs, on the financing methods chosen and employed by SMEs (Abdulsaleh & Worthington, 2013). Furthermore, the majority of these studies have not examined perceptions of SME owner-managers with regard to finance in general and in particular in relation to Islamic finance. Thus, this study aims to explore the perceptions and opinions of different actors: SME owner-managers, financial institution managers, and sharia board members.

Furthermore, There is a wealth of literature around Islamic finance (for example, Aggarwal & Youssef, 2000; Ahmed, 2009) and on finance for SMEs (for example, Beck

et al., 2011; Hamilton & Fox 1998). However, as previous stated there is limited literature that draws these two areas together (Awad, 1994). Given the stated importance of SMEs in generating economic growth within Kuwait, it is essential that such enterprises have access to sources of potential finance. As far as the author is aware, there is no study about Islamic finance for SMEs in Kuwait. This research bridges this gap and adds value to the existing literature on Islamic finance theory by adding new insights and by being the first research on this level conducted in the context of Kuwait. It also aids the development of SMEs in the economy by progressing our understanding of how Islamic financial institutions can further support SME growth within Kuwait using Islamic finance methods.

2.6 Theoretical framework

Academic research has to be based on theoretical foundations, to add value to the existing literature. A review of the literature, concerning capital structures and the financing decisions of firms, shows that there are many financial theories. However, most of these were applied to and tested on large firms. Recently, academic researchers have been trying to investigate whether the theories of finance that were relevant to large firms are applicable to SMEs, and many have taken an interest in examining small firms' capital. Therefore, many researchers around the world have carried out research to test whether the financial theories that are relevant to large firms can be applied to small firms. The following are the main theories that have been inducted in this research (Anfara & Mertz, 2006).

2.6.1 Theory of Islamic finance

Islamic banking and finance developed in agreement with the values and spirit of Islam, and the ideas which relate to it are now 30 years old. However, Islamic banking theory is still not well developed. The literature on Islamic banking and finance has focused on a few credit-based instruments. The overriding concern in inventing or adapting new financial instruments has been meeting the *sharia* (Islamic law) requirement legalistically while the *maqasid al Sharia* (objective of Islamic law) has not received due attention (Siddiqi, 2006).

According to the ethics of the *maqasid al sharia*, the Islamic system places equal emphasis on the ethical, moral, social, and religious to promote equality and fairness for the benefit of society as a whole. All business and finance contracts in the framework of Islamic finance have to conform to *Sharia* rules with the objective of adhering to Islamic law (Ayub, 2007).

Smolo and Ismail (2010), Kaleem and Ahmed (2010), and Al-Jarhi (2013), suggested that Islamic banking should play a consequential role in promising the Islamic objectives of social justice, equitable distribution of wealth, and the promotion of economic development. The Islamic banks can turn to the alternative sources of funding, such as zakat, charity and waqf, to finance SMEs. However Islamic financing theory is still to a large measure' theoretical and has still to be applied in reality.

Aljifri (2013) claimed that the foundation of Islamic finance sharing the risks in all circumstances and avoiding unnecessary advantage to either party and is therefore, built on justice and ethics. It is furthermore, based on conducting business activities within the outline of Holy Quran, and Sunnah. Thus, Islamic finance limits the problem in agency relationships between the between debtor and creditor.

2.6.2 Agency theory

The agency relationship is one of the oldest and commonest arranged styles of social interaction. An agency relationship exists when one or more principals appoint another person as their agent to perform a service on their behalf (Ross, 1973; Eisenhardt, 1989; mole 2002; More et al., 2012).

The two problems that can arise in agency relationships can be solved by agency theory.

The first agency problem happens when there is disagreement between the principal and agent with regard to requirements or goals, and the second is when it is difficult or expensive for the principal to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately (Eisenhardt, 1989; shane, 1998).

Information asymmetry and related problems such as adverse selection and moral hazard are counter to the problems encountered by providers (principal) and, by small firms. Problems encountered by SMEs in accessing finance are compounded by the trends in the finance industry. Trends such as centralization of lending decisions, and preference for short-time financing options by banks are representative of what happens in the industry. Consequently, banks only grant approval for loan applications where the interest rates are higher and the collateral requirements are also more stringent to compensate for the increased risks occasioned by financing as a last resort (Lean & Tucker, 2001).

2.6.3 Information Asymmetry theory

Information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. Where information asymmetries are particularly pronounced, the owner-manager knows more about his business, and the risks it faces, than does the lender. This is also the situation when the shareholders of a firm have less information than the manager.

Lean and Tucker (2001) argued that the most important reason behind the finance gap that faces SMEs is the information asymmetry that exists between the principal and the agent recipient of finance.

Aly et al., (2010), Steijvers et al., (2010) Daskalakis, et al., (2013) Abdesamed & Wahab, 2014; Dong and Men (2014) Fredriksson and More (2014); Han et al., (2014); Islam et al., (2014). argued that the relationship between SMEs and financial institutions is often categorized by asymmetric information, adverse selection and moral hazard problems. These problems ultimately may lead to the problem of credit limiting, which could be alleviated by the use of collateral in the credit contract. Hassan (2014) claimed that the information asymmetric between debtor and creditor plague most credit markets and arise from the creditors inability to know the true credit worthiness of the debtor.

2.6.4 Moral Hazard theory

Moral hazard is the consequence of asymmetric information after the transaction occurs. It has long been recognised that a problem of moral hazard may arise when individuals engage in risk sharing under conditions where their privately taken action affects the probability distribution of the outcome.

The source of this moral hazard is an asymmetry of information among individuals that results because individual action cannot be observed and hence contracted upon (Holmstrom, 1979; Yousfi, 2013; Hassan, 2014).

Ahmed (2007) and Steijvers et al., (2010) claimed that SMEs have difficulty accessing funds from traditional finance institutions and that the reason for this is related to problems of asymmetric information and moral hazard in finance. Financial institutions raise funds from the lender and invest them to achieve returns in the future. In so doing, they face a number of information related problems and risks, and after the funds are distributed, the moral hazard problem has to be taken into consideration to ensure that the funds are not misused; usually financial institutions ask for collateral to reduce these problems.

As far as the researcher knows, no study has yet addressed the issues of how Islamic financial instruments affect agency theory, information asymmetry theory and moral hazard in the SME sector in Kuwait. Therefore, this study is based on these theories in order to contribute to knowledge in this area.

2.7 Summary

This chapter has reviewed the literature about finance in general for SMEs. It has been shown that SMEs find it more difficult than larger firms to gain access to external finance due to constraints such as asymmetric information and lack of collateral, and to other challenges.

The next chapter discusses Islamic banking and finance. This allows us to focus upon the philosophy and features of Islamic financial institutions and helps us to understand

the aim of this research; that is, how Islamic financial institutions in Kuwait can support SMEs against the backdrop of the issues discussed in the literature and in the face of other problems.

Chapter 3 : Islamic banking and finance

3.1 Introduction

One of the objectives of this research is to review how Islamic financial institutions meet the needs of SMEs in Kuwait, and the second is to explore how these institutions can develop further support to meet the needs of SMEs in Kuwait

A large and growing body of literature has investigated the lack of conventional finance for SMEs, particularly following the recent financial crisis (see for example, Steijvers et al., 2010; Rocha et al., 2011; Vasilenko & Arbaciauskas, 2012; Zubair, 2014). However, the challenges facing Islamic financial institutions have received little attention in the literature. There is limited literature that links Islamic finance and financing for SMEs; indeed, Ali (2013) mentioned that the literature gives little attention to the challenges facing Islamic finance as an alternative to conventional finance in Islamic Development Bank (IDB) member countries, the home of Islamic financial Institutions.

Islamic banks operate in more than 75 countries around the world establishment of more than 430 Islamic finance institutions (Hassan, Kayed & Oseni, 2013). Islamic finance assets are predicted to exceed 2 trillion in 2014 (Ernst & Young, 2013). Kuwait hosts more Islamic financial institutions within the 'Top 500' list than any other country in the world (Kettell, 2010) It has been ranked third in terms of the holding of Islamic banking assets, worth US\$70 billion (Khan & Bhatti, 2008; oxford, 2014). Kuwait therefore has a variety of Islamic financial institutions, amongst others, the Commercial Bank investment bank, the Investment Company, and the Asset Management Company, and some of the largest non-Islamic institutions have *Sharia* windows that are used to provide sources of SME finance. According to Ahli united bank website there are more than sixty-five Islamic institution listed in the Kuwait stock market in all sector.

Richardson (2006) suggested that the Islamic banking and finance industry made persistent advancement in its early stages. However, Islamic banking have recorded extraordinary growth (Hassan, et al., 2013; Ernst & Young, 2013) claimed that Islamic finance assets are predicted to exceed the \$2 trillion in 2014, because of factors

including: high oil prices, which have been consistent around the world; the booming economies of the Middle Eastern region; increasing diversification of Islamic banking products, customers and markets; and other changes in the world of politics.

Many researchers (Khan & Bhatti, 2008; Aggarwal & Youssef, 2000; Ahmed, 2009; Ahmed, 2010; Abdelsalam & El-komi, 2014; Ernst & Young 2014; Naceur, Barajas, Massara, 2015) suggested that Islamic finance boasts an expansion rate in the double digits, and is, even today, the fastest-growing sector of the economy during the financial crisis.

Middle Eastern and Asian governments have become very active in promoting Islamic banking and finance activities. However, according to Ali (2013), although Islamic banks and finance have grown in recent years, there is still no encouraging environment for the financing of SMEs.

Khan and Bhatti (2008) proposed that growing numbers of Western financial institutions are using Islamic banking and finance as an opportunity to add diversity and innovation to this process and to attract oil wealth and local Muslim customers to their doors. Islamic financial institutions have become partners with Western market players to promote banking and financial products and services in European and Western markets.

This chapter is about Islamic financial institutions and the main Islamic finance philosophy; thus, it starts with a brief introduction to the primary *Sharia* principle and the *Sharia* objectives for business and finance, which will help the reader to understand the philosophy of Islamic finance when it is explained at a later stage. The second section discusses standards of social responsibility for Islamic finance institutions, to provide background knowledge on the difference between Islamic finance theory and practice, and to set out the main Islamic corporate social responsibilities of *zakat*, *waqf* and *qard hassan*. The second section shows the alternatives most often matched to SME finance. The last section of this chapter is about how to integrate *zakat*, *waqf* and *qard hassan* with microfinance.

3.2 Islamic Sharia and its objectives

Ayub (2007), Ibn-Ashur (2006), Hasan (2011), Syed & Hasan (2015), Ngalim & Ismail (2015) suggested that before discussing Islamic banking and finance, it is important to explain Islamic *Sharia* law and its objectives (*maqasid*), because all business transactions which take place within the framework of Islamic finance must be compatible with the rules of Islamic law to achieve the Islamic objectives.

Siddiqi (2006) and Ahmed (2010) claimed that the study of objectives is important, as they reflect the spirit of the Islamic jurists and help to determine the prohibition or legalization of any issues. The overall objective of Islamic Sharia is the happiness and well-being of the people in this world and the hereafter.

3.2.3 The objectives of Islamic law (maqasidal Sharia) in Islamic finance and business

It should be understood that *maqasid* is important in the characterisation of Islamic finance which plays a crucial role in economics, finance, and business transactions today. The consideration of the *maqasid al Sharia* in finance and economic activities facilitates the achievement of the noble objectives of Islamic law. Choudhury (2001) found that the central objective of Islamic financing is to incorporate the profitability and developmental perspectives in agreement with the aims of Islamic law (*maqasid al Sharia*).

It is clearly stated that *maqasid al Sharia* recognizes finance as a valuable aspect in life. In addition, Islamic law in the form of Islamic legal ruling and regulation protects finance.

The conventional financial system focuses mainly on the economic financial aspects of transactions; it is usually driven by maximization of profit, whereas the philosophical basis of the Islamic financial system goes beyond that. According to the ethics of *maqasid al Sharia*, the Islamic financial system puts equal emphasis on the ethical, moral, social, and religious aspects of business transactions to promote equality and

fairness for the benefit of society as a whole. *Maqasid al Sharia* aims to achieve various objectives in a business transaction, which are as follows:

- The distribution of wealth;
- Preservation and protection of wealth;
- Transparency in wealth and finance;
- Development and investment of wealth;
- Prevention of damage and hardship in wealth and finance; and
- Justice in the circulation of wealth

Hassan and Mahlkecht (2011) indicated that these objectives give important value to finance, banking, and transactions. The implementation of *maqasid al Sharia* will improve the performance of finance and trade and found justice in the business community and society at large. Furthermore, the achievement of the objectives of Islamic law with regard to commercial transactions creates happiness and satisfaction and meets the economic needs of society.

Many features of Islamic finance can be found in other religions and ethical systems. For example, the prohibition of interest is present in all Abrahamic religions: Islam, Christianity and Judaism. Interest was limited in many American states until 1981, as well as in the Hindu law code of the Hammurabi, in the Magna Carta, and in Roman law (Hassan & Mahlkecht, 2011).

Hassan and Mahlkecht (2011) found that most financial institutions comply with Islamic *Sharia* law, but a few of them have aimed to achieve higher *Sharia* objectives; that is, to add features and objectives of ethical financial products.

The following describes the significant philosophy and features of Islamic finance.

3.2.3.1 Avoiding interest (Riba)

Riba, the Arabic word, literally means 'increase' or 'growth', it is generally understood to be an unjustified increase in capital for the earning of which no appropriate effort has been made. It is often translated as usury or interest, or used as a technical term

for any unjustified increase in capital for which no compensation is given (Nawawi, 2009; Hassan, et, al., 2013).

Kaleem and Ahmed (2009), Hasan (2011), Hassan, Kayed and Oseni, (2013) claimed that the permission of trade and the prohibition of interest (Riba), stipulated in verse (2: 275) of the Holy Quran (“Allah has allowed (profit from) trade and prohibited interest”), drive financial activities in Islamic economies towards asset backed transactions. This means that all financial transactions must be representative of the real transaction or sell goods or services or benefits.

The prohibition of Riba is clearly stated in the Quran, as in for example surah Al-baqarah verses (2; 278-279):

“O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do not, take notice of war from Allah and His Messenger: but if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly”.

Economics commonly believes that there is no trade and no development without loans and that there are no loans without interest.

3.2.3.2 Avoiding *garar* (Ambiguity)

The avoidance of *garar* is another key principle of Islamic finance. Abdul Rahman (2010) stated that the Arabic word *garar* means risk, uncertainty, and hazard. Although all contracts include future aspects, uncertainties and doubt as essential elements. Islamic law prohibits *garar* because of the excessive uncertainty involved. Beyond that, elements of *garar* are also found in cases where the gain of one party is the result of the loss of another, or as Al-Suwailem (2000) puts it: A “zero sum game”. Therefore, *garar* is a contractual uncertainty where the contract stipulates gain for one party only.

Garar manages to deliver excellent results. Careful analysis of a long list of definitions shows that:

- Some scholars agree that *garar* is limited to the uncertainty and ambiguity of consequences; whether or not they can be achieved or accomplished.
- Others say that *garar* is limited to transactions which are unknown (*majhul*) in nature.

- The majority of scholars agree on a mixture of the first and second options, so that any transactions which are not clear in nature, and as a result can lead to unknown results, are considered *garar* (Abdul Rahman, 2010; Ahmad & Ahmad, 2011).

3.2.3.3 Avoiding gambling

Another type of activity which Islamic finance is obliged to avoid is gambling and games of chance. It includes all instruments such as prizes, bonds or lotteries in which coupons or tabs are given and inducement or incentives are offered by an uncertain and unknown event depending on chance. Gambling is involved in a number of financial operations and conventional banking systems/products, which Islamic banking has to avoid (Ayub, 2007; Hassan et al., 2013 AAOIFI, 2014).

3.2.3.4 Alternative finance principles

In the absence of interest as a basis for finance, Islamic finance has a number of other techniques and tools with which to conduct business, such as *mudarabah*, *musharaka* (Sadique, 2008), *murabaha* (Ahmed, 2011), Salam, *ijarah* and *istisnaa*. Later on, this chapter will explain the main forms of Islamic finance so that the reader can easily understand the debates surrounding the philosophy of Islamic banking (AAOIFI, 2014).

3.2.3.5 Entitlement to profit with risk and responsibility

One of the most significant characteristics of Islamic banking and finance is that it encourages risk-sharing between providers of funds (investors) and users of funds (entrepreneurs). Under conventional banking systems, by contrast, the investor is assured of a predetermined rate of interest. In conventional banking, all the risks are borne by the entrepreneur. Whether the project succeeds and produces a profit or fails and produces a loss, the owner of the capital is still rewarded with a predetermined return (Ahmed, 2010; Ahmed, 2011; Kettell, 2010; Bazza et al., 2014).

Assuming commercial risks are a prerequisite for any profit. The important *Sharia* maxim, “Al kharaj bi-al-Damen” or “Al GaunmbilGhurm”, is the standard for the

legitimacy of any return on capital; meaning that one has to be prepared to bear a loss if one wants to make a profit on an investment. Profit has to be earned by risk-sharing and reward of ownership through pricing of goods or services, or the usufruct of the goods.

3.3 Islamic finance modes applicable to SMEs

Islamic finance is growing rapidly all around the world and the compliance of financial products and services with *Sharia* continues to develop (Oseni, Hassan, & Matri, 2013; Ali, 2013). According to Abdul Rahman (2010), and Huda (2012), one of the greatest obstacles facing SMEs is lack of finance, although Islamic financial products can help to solve this problem and have the potential to provide several instruments that can be adapted to the financing of SMEs.

Trading is one of the most common activities for Islamic banks. While traditional banks simply finance businesses by providing funds, Islamic banks are forced to become involved in the process of selling and buying goods in accordance with the trade rules prescribed by Islamic law. They are entitled to profit by undertaking commercial risks. (Ayub, 2007).

In the absence of the interest system in business transactions there are types of financial contracts which are presented in Islamic jurisprudence as alternatives to Riba.

3.3.1 The role of Islamic institutions in financing SMEs

Shaban et al. (2014) stated that their study, which differentiates between the behaviours of conventional and Islamic banks in Indonesia, is the first to provide a comprehensive analysis of banks' willingness to lend to small businesses. The study found that large banks are less interested in financing small businesses, compared to small banks, and that Islamic banks benefit more from lending to small businesses give the substantial improvements in their net interest margin and lower capital compared to conventional banks. Also the study found that Islamic bank products and

their structure are better suited to small business lending in terms of easing the preconditioned collateral requirements of the conventional banks.

Ali (2013) considered the challenges and limitations facing the use of Islamic finance to promote SMEs in IDB member countries, and discovered that there are more challenges preventing Islamic finance from playing a vital role, the main one possibly being their weakness with regard to trade and Islamic finance infrastructures.

Oseni et al. (2013) examined the need to find a credible alternative to collateral-based debt finance for French SMEs. Built on ethical business models, the Islamic SMEs and microfinance models are expected to foster innovation and sustainability for smaller economic players. The study found that it is a good incentive for the integration of Islamic finance in the French framework.

Huda (2012) discusses other frameworks in which Islamic finance schemes could be used in developing countries to solve the financing problems faced by SMEs. The study found that SMEs in Indonesia encounter obstacles when seeking access to finance, and that Islamic finance products such as *mudarabah* and *musharakah* might help to solve this problem. It is also suggested that the government should act as a strategic partner with Islamic banks in reducing the asymmetric information that prevents banks from lending to SMEs.

Several studies have investigated the link between Islamic finance and micro financing. Shahinpoor (2009) described the basic principles of Islamic financial banking and micro financing and showed the link between the two practices. The study found that Islamic religious leaders usually dismiss micro financing because it requires high interest rates which are against Islamic law. However, it is also suggested that it is possible to combine the two practices and to convince Islamic religious leaders that Islamic banking could be applied to micro financing.

Abdul Rahman and Dean (2013) highlighted the challenges faced by Islamic microfinance institutions (MFIs) and map out suggestions for overcoming the issues. Their study found that the challenges are, low market penetration, low sustainability of MFIs due to lack of fund mobilisation and high administrative costs, and the

effectiveness of Islamic MFIs in poverty alleviation. They suggested a number of solutions, including, collective resolution in increasing bank participation in microfinance and diversifying their portfolios, provision of education and training, and technical assistance through waqf and zakat funds.

In Kuwait there are two mechanisms for Islamic financing of SMEs. The first is the creation of specialised Islamic institutions to finance SMEs, and the second is the encouragement of products offered through general Islamic banks. To the best of the author's knowledge, no existing study makes an evaluation for both mechanisms and compare between the two cases. Therefore, the finding will assist the policy makers to decide which of these mechanisms meet the need of SMEs in Kuwait. Especially the findings will contribution to the new national fund for sponsoring and development of small and medium enterprises to choose which of these mechanisms should they adopt to support SMEs sector

Oseni et al. (2013) claimed that the financing of SMEs using Islamic instruments fosters innovation and sustainability in smaller economies. The following are the most important instruments for financing SMEs in Kuwait and in other countries.

3.3.1 Murabaha (cost-plus profit financing)

Murabaha and *Ijara*, are the most popular Islamic financial products, notably in the Gulf cooperation council (GCC) (Wilson, 2009). *Murabahais* defined as selling a commodity at the purchase price with a defined profit. This may be a percentage of the selling price or a lump sum.

It is quite clear that the transaction under *murabaha* must fulfil the general conditions that apply to the ordinary sale. The specific conditions regarding lawful transaction of *murabaha* pertain to the goods subject to *murabaha*, the original price paid by the seller, any additional costs to calculate the total costs which serve as the basis of *murabaha* and margin of profit charged on the cost so determined. An account of these conditions follows (Hassan et al., 2013; AAOIFI, 2014).

- 1- Commodities trading should be real, but not necessarily tangible. Rights and royalties are examples of non-tangibles that can be traded through *murabaha* as they have value and the owner can be sold on credit.
- 2- The seller must mention the original price and the additional expenses incurred in the sale.
- 3- The prospective seller in *murabaha* is required to disclose all aspects of the goods, any weaknesses or benefits and the method of payment used by the seller/original supplier.
- 4- The margin of profit on the price so reached has to be mutually agreed upon between buyer and seller.

Shaban et al. (2014) suggested that *murabaha* contracts are perfect for financing SMEs, and they encourage Islamic bank managers to be less concerned with the asymmetry of information associated with financing SMEs. This is because *murabaha* is based on collateral-by- contract, so the bank maintains ownership of the asset until the end of the contract.

3.3.2 Ijarah (simple leasing arrangement)

Ijarah (leasing) means rental of a property under contracts that are getting the specified permissible benefit for a specific time period for a specified permissible consideration (AAOIF, 2014).

Leasing constitutes a large part of world finance today. Strictly speaking, financial services leasing is a commercial activity and not a mode of finance. However, for a number of reasons but especially because of tax concessions, leasing is used in many countries for the purposes of finance, and financial institutions lease numerous forms of asset and equipment for their customers (Sadique, 2008).

In the area of Islamic finance, leasing is an important tool with a great deal of business potential for Islamic financial institutions, not just because of the benefits, but also because of the 'nature-based assets' investment in Islamic finance (Kettell, 2010).

From an Islamic perspective, the lease process is governed by the banking and financial institutions according to the rules established in the jurisprudence for leasing transactions.

3.3.3 *Istisna*

According to the most authoritative Arabic language dictionaries, the word *istisna* is derived from the word *sanaa* which literally means making, manufacturing, or constructing something (Hassan et al., 2013; AAOIFI, 2014).

Istisna is a contract of sale of specified items to be manufactured or constructed, with an obligation on the part of the manufacturer or builder (contractor) to deliver them to the customer upon completion (Hassan et al., 2013; AAOIFI, 2014).

3.3.4 *Musharaka* (Full partnerships)

Musharaka is an Arabic word which literally means sharing. In the context of business, it is an agreement between two or more parties in which each party offers a portion of capital, and profits or losses are shared between them on a profit and loss basis (Nawawi, 2009; Iqbal & Molyneux, 2005). In the context of Islamic banking, *Musharakah* is described as a joint venture between an Islamic bank and a customer or business firm for certain operations. The Islamic bank can potentially act as the fund provider to finance industry, trade and almost all legal enterprises through either equity investment or direct participation. Saad and Razak (2013) claimed that Islamic financial institutions should consider *musharaka* contracts as the main products for financing SMEs because, they are the ideal product. *Musharaka* is considered it as the most authentic form of Islamic contract, which was practiced in the Arabian Peninsula long before the advent of Islam (Hassan, et al., 2013; AAOIFI.2014).

It is an ideal replacement for interest-based finance with further impact upon production and distribution. In the modern capitalist economy, interest is the only tool used in every type of finance. Since Islam prohibits interest, this instrument cannot be used to provide the basis of Islamic principles (Adbul Rahman, 2010; Usmani, 2010).

Musharaka is a kind of participation often referred to in the context of Islamic modes of finance. However, the term *Sharika* is used more commonly in 'Islamic law'. For the purpose of clarity in these basic concepts, it would be appropriate at the outset to explain the meaning of each term, as distinct from the other. *Sharika* means sharing in terms of Islamic jurisprudence.

Furthermore, a number of researchers have recommended that *musharaka mutanaqisah* (*decreasing musharaka*) is the most suitable modern financing technique and Sadique (2008) indicated that decreasing *musharaka* instrument as permitted by a number of current scholars could be a high viable tool in facilitating SMEs to obtain necessary assets as well as financing complete ventures (Sadique, 2008; Ahmed, 2002).

Contemporary scholars debated that decreasing *musharaka* could be successfully used in financing SMEs for the obtaining of assets as well as for financing complete projects (Sadique, 2008). Potential SMEs owner-managers who are incapable to provide collateral and, as a result, fail to meet the strict requirements of a traditional bank could be the beneficiaries of this category of funding. However, their viability, along with that of the enterprise is inspected before they can be confirmed as participants. This is explained by the fact that, if the viability of the enterprise could be reasonably ascertained, the absence of collateral on behalf of the entrepreneur would then not prevent the Islamic financial institution from financing on the basis of equity participation. This is additional reinforced by the fact that the Islamic financial institution will own a part of the business assets and there will be a better potential for higher returns being realised as an equity partner (Sadique, 2008). However, the request for collateral will still be substantial in circumstances whereupon the entrepreneur faces initial losses.

Even though *Musharaka* has been considered in the literature as a suitable technique for financing SMEs, some authors have found that only marginal importance has been recognised to *Musharaka* instruments, and not much capital can be raised from them (Ahmed, 2010; Choudhury, 2001). Additionally, Shahinpoor (2009) argued that Islamic banks are not successful in profit-loss sharing (*Musharaka* and *Mudarabah*) practice

when financing SMEs. This is because of the lack of success due to asymmetric information between the banks and SMEs that causes a moral hazard problem. Therefore, banks may prefer to opt other Islamic financing method such as Murabahah.

3.3.5 Mudarabah

In difference to Musharaka, the Mudarabah instrument of contract has been called as a profit sharing and loss absorbing, rather than profit and loss sharing, contract (Gafoor, 2006). It is a contract in which two parties are involved to establish a project; the first party (called the investor or the financier) provides the capital needed and plays no additional role in the project whereas the other (called the entrepreneur) offers his/her skills, experience and effort (AAOIFI, 2014). Profits are then shared between the two parties on the basis of a pre-determined ratio. In the case of loss, however, the financier entirely bears the financial loss, while, the entrepreneur bears the operating losses and receives no reward for his/her effort (Nawawi, 2009). Abdul Rahman (2007) pointed out that one exception in which the entrepreneur becomes liable for the amount of capital invested is in the case of negligence and breach of the terms of the contract (Abdulrahman, 2007).

The instrument of Mudarabah has received critiques in the literature. One of the main criticisms is that its net result is often the same as the net result of interest-based borrowing. Warde (2000) determined that Mudarabah agreements were frequently associated with moral hazard and adverse selection. Part of the reason for this is because honesty, transparency and trustworthiness, presumably characterising the entrepreneur, cannot be guaranteed. As such problems are likely to be necessary in Mudarabah agreements, Segrado (2005) recommends that specific training to overcome these issues is needed, thus confirming that the Mudaraba agreements could be more suitable for businesses with a longer profit cycle

3.4 Standards of corporate social responsibility for Islamic financial institutions

The responsibility of representative organizations such as Islamic financial institutions (IFIs) is the same as the individual social responsibility of every Muslim: to promote goodness and to forbid evil (wrong). Aribi & Gao, (2011), Bahari and Yusuf (2014), and Farag et al. (2014) found that the Quran and Sunna do not directly explain corporate social responsibility. However, there are many texts in the Quran and Sunna about individuals' duty to be responsible for Society. These responsibilities can be defined in three ways: first is responsibility to God; second responsibility towards the people; and third responsibility towards the environment. Therefore, Islamic financial institutions are expected to be more socially responsible than conventional financial institutions due to their religious identity. Muslims have special responsibilities towards everybody.

The basic principles of Islam place great emphasis on social justice, inclusion, and sharing of resources between the haves and the have-nots. Islamic finance deals with the issue of financial inclusion, of comprehensive promotion, in two ways: one through risk sharing contracts that provide a viable alternative to traditional conventional debt-based financing; the other by a specific instrument to redistribute wealth within the community (Hassan, 2008).

Despite its essential role in the growth of productivity and equality in society, still in emerging markets 2.7 billion people (70% of the adult population) do not have access to basic financial services. A large number of them come from countries where the majority of the population are Muslim. With the increasing interest in the development of financial systems which are compatible with *Sharia* law, it would be useful to study the perspective of Islam with regard to financial inclusion and economic development (Hassan & Mahlkecht, 2011).

Islamic finance replaces finance based on interest with both risk-sharing financial instruments and instruments of redistribution such as *zakat*, *waqf* and *qard hassan*,

and these balance each other to provide a comprehensive method of poverty eradication, health and building a vibrant economy.

From the above, it seems that the one main aim of Islamic finance institutions is to improve accessibility and availability of basic finance to every member of society, even the poor and needy, because the main goal of the philosophy of Islamic finance is to eradicate poverty, and to achieve social-economic justice and equitable income. This could be either through Islamic banks or by establishing specialized institutions to finance SMEs. Ahmed (2007) suggested that there are various institutions that help to redistribute wealth in Islam, such as *zakat*, charity, *waqf* and *qard hassan*. One objective of this research is to evaluate and study the idea of integrating *zakat*, charity, *waqf* and *qard hassan* in financing SMEs.

3.5 Integrating *zakat*, charity, *waqf* and *qard hassan* with SMEs

Mohildin et al. (2011) argued that Islamic poverty exists not because economic resources are scarce, but because they are misallocated, inefficiently managed, unproductively hoarded, and unevenly distributed. Independent social spending, according to Islam, is the best possible way for members of the Islamic social order to promote a more equitable distribution of wealth and resources. Muslims with the financial capacity to donate beyond their *zakat* requirements are therefore strongly encouraged to further invest in charity. Use of Islam's redistributive organization, such as *zakat*, *qard hassan* and *waqf*, has enormous potential to increase access to finance.

The theory of *zakat* can be expanded to provide a sustainable source of income for the beneficiaries. If *zakat* funds were managed properly, the pooling of these funds and encouragement of the beneficiaries to direct them towards start-up SMEs would contribute to a more conducive development impact and help reduce disparities within the economy (Mohieldin et al., 2011).

Both risk-sharing financial and specific instruments equipping redistribution (such as *zakat*, *waqf* and *qard hassan*), could complement each other to provide a

comprehensive approach to the elimination of poverty and to build a vibrant economy (Muhtada, 2008; Amuda, 2013).

Ibrahim and Ghazali (2014) discussed the rationale of employing *zakat* funds as a source of micro financing for Muslim entrepreneurs with small businesses. They also made suggestions concerning the proper mechanism for *zakat* micro financing, to ensure that it is effective. The study found that the *zakat* microfinance methodology is closer to the community because it involves an interest free loan and non financial services that can assist with poverty alleviation.

Ismail and Possumah (2013) argued that charity-based Islamic microfinance institutions (MFIs) are financially and socially sustainable because they are based upon concepts of brotherhood and voluntary service. The study objective is to shift the focus from financial access, to poverty eradication and people's empowerment, and then to shift the integration of *zakat* into MFIs. The study found that the major contribution of *zakat* based microfinance was to provide capital to the poor and needy, to enable them to build their own business, and also to provide them with the incentive to work diligently, and to return the principle amount without any additional charges.

Hassan (2014) examined the growth of Islamic microfinance schemes in the Andaman Islands to see how the Islamic microfinance sector and social capital challenge poverty alleviation. The study found that the idea that social collateral has been substituted for physical collateral in the provision of interest free loans is a novel idea in the world of Islamic banking and it has been replicated in the informal Islamic microfinance programme. Also, the study found that collective action through Islamic microfinance groups actually helped to increase environmental awareness, for the economic betterment of the members.

Haneef, Muhammad, Pramanik and Mohammed (2014) developed an Integrated Waqf based Islamic Microfinance Model (IWIMM) for poverty reduction in Organisation of Islamic Cooperation (OIC) member countries. According to the study, the model could be expected to overcome challenges of conventional microfinance, such as the high cost of capital. The researchers suggested that a further investigation should be conducted to test integrated waqf in microfinance.

The above results from literature suggest that there is a shortage of studies concerning the integration of non-profit instruments such as *zakat*, *charity*, *waqf* and *qard hassan* in support of the SME sector, particularly in the GCC countries. As the GCC countries are considered to be wealthy, these non-profit instruments, that are normally used to alleviate poverty, have not been subject to analysis or study; most studies that have been conducted in this field have been undertaken in very low income countries with the aim of using such instruments to alleviate poverty (Sadeq, 2002; Ismail & Possumah, 2013; Hassan, 2014; Ibrahim & Ghazali, 2014). This study will therefore contribute to the literature, with regard to SMEs in the GCC countries, as they share many similarities in terms of culture and their high incomes. The findings of this research can be used as guidance for other GCC countries. Although the non-profit instruments are in reality mainly used for the eradication of poverty, However Social economy justice and the equitable distribution of income are among their primary goals also. The study found that, in accordance with Islamic law, it would be acceptable to integrate *zakat*, *charity*, *waqf* and *qard hassan* in the support of SMEs in Kuwait

Furthermore the literature suggested that further study should be conducted to test the integration of *zakat*, *waqf*, *charity* and *qard hassan* in financing SMEs.

3.5.1 Integrating *zakat* in the financing of SMEs

Literally, *Zakat* means blessing, purification, increase, or cultivation of good deeds. In Sharia, it is an obligation in respect of funds paid for a specified type of purpose and for specified groups. Every Muslim whose wealth exceeds a certain level (Nisab) is obliged to give a share of that wealth to the poor and needy in the form of *zakat* as part of their religious obligation. The requirement to pay *zakat* occupies an important place in the financial structure of Islamic economics. There are frequent reminders to Muslims in the Quran to keep praying and to pay *zakat* (Samad & Glenn, 2010; Aribi & Gao, 2011; Mohd Rom & Rahman, 2012; Htay, Salman, Myint & Ilyas, 2013).

Zakat is the payment that is due on a specific type of wealth, such as gold, silver, currencies, trade articles, livestock (camels, cows and goats), agriculture, and minerals. It is disbursed to specific categories that are mentioned in the Quran (sura

Al-Taubah, Verse; 60); “The alms are only for the poor and needy, and those who collect them, and those whose hearts are reconciled, and debtors and for the cause of Allah, and for wayfarers” (AAIOFI, 2014).

The objective of establishing *zakat* payments is to eradicate poverty and maintain socio-economic justice, safeguard wealth from the jealousy of others, the poor in particular, and to keep the giver thankful to God for His bounty (Samad & Glenn, 2009).

Thus, *zakat* has at least four benefits in relation to the establishment of economic justice. It:

1. Minimizes the social and economic gap between rich and poor people.
2. Reduces the accumulation of unused wealth, and encourages productivity.
3. Increases the purchasing power of the poorest groups of society and increases overall effectiveness. Ultimately, it leads to increased employment and economic output, and it brings positive effects in economic development and social justice (Muhtada, 2008; Amuda, 2013).

So far, compulsory *zakat* collections like that in Malaysia and voluntary collections like that in Kuwait are decided at a national level (Rom and Abdul Rahman, 2012). These decisions are made by legally recognized organisations found in Muslim countries.

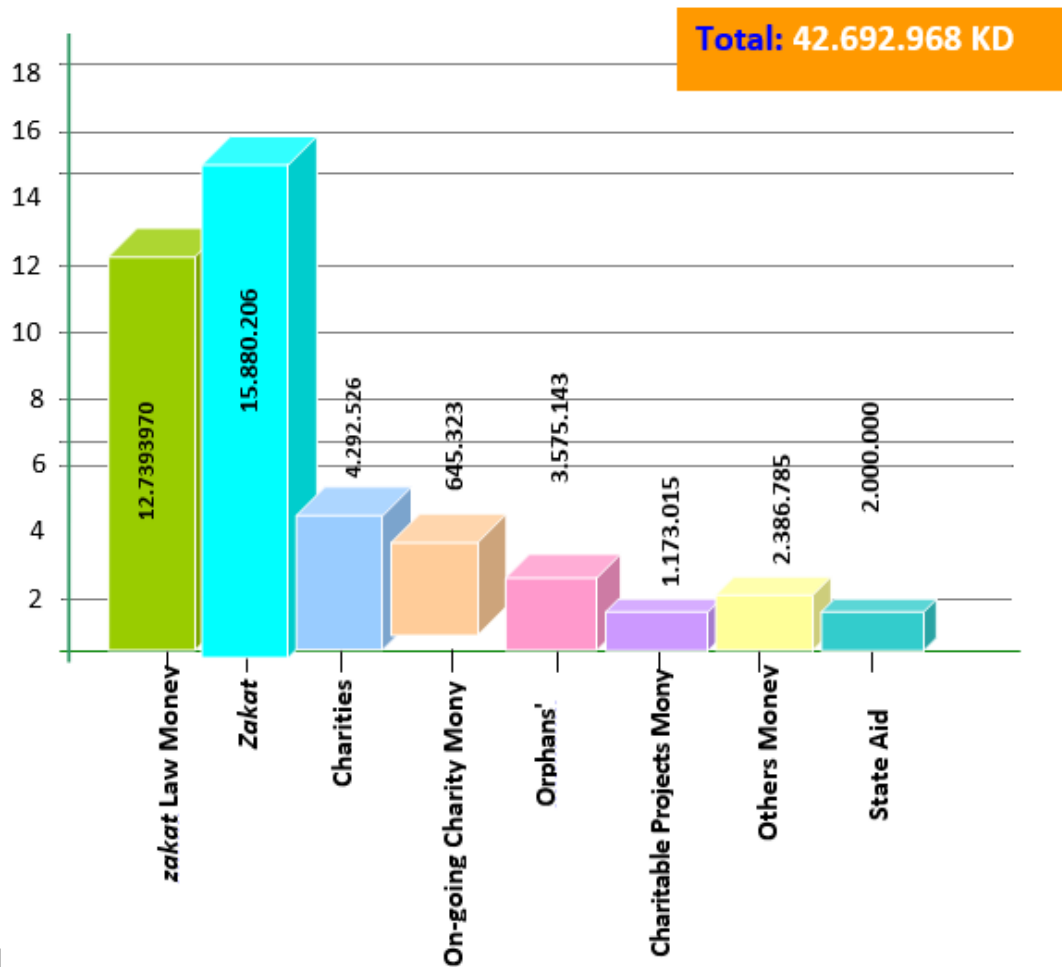
Ismail and Possimah (2013) argued that *zakat* is one of the most significant instruments in the Islamic economy. However, the collection and empowerment of *zakat* funds are still not able to provide significant impacts for the realization of public welfare in general and the reduction of the poverty level. The reason for this is the lack of Islamic governance, where *zakat* collection and distribution would need to become a public task. Kuwait has many organized collections of *zakat*, government makes some of them but most of them are non-governmental.

The Kuwait *zakat* House is a government body with responsibility for the collection and development of *zakat* resources, benefaction, and the spending of its funds both locally and abroad. It pursues the quantitative and qualitative expansion of services presented to its beneficiaries in accordance with the development needs of the community through the adoption of a financial and administrative system which

complies with the provisions of Islamic law and standards of quality and corporate governance.

The *zakat* House maintains contact with its honoured benefactors and donors through all possible means, including a diverse network of modern technology channels for the collection and use of data, particularly digital ones. It is focused on direct personal contact with wealthy people and representatives of companies.

Figure4 The chart below shows the total revenue for Kuwait Zakat House for 2010



Sources: Kuwait *Zakat* House annual report 2011

The House helped 34,987 needy families in 2010, and gave these families monthly aid and *qard hassan* loans totaling 31,263,199 KD. The number of people who benefited in 2010 was 23,576.. (Kuwait *Zakat* House annual report 2011)

Khaled Hussein, Deputy Director of the *Zakat* House, said that its monthly financial support provided for the families, noting that about 6.5 million was allocated to this cause in the first quarter of 2012. Over 11,577 families, totaling 57,619 persons, have been advanced support by the *zakat* House in the past; the aid consists of food, clothing, and other necessities (Kuwait News Agency “KUNA”, 2012).

The Kuwait *zakat* House supports needy and poor families. However, all of this support is in the form of goods, clothing and food, and not as capital to start an SME, even the *qard hassan* is not a capital loan to start an SME.

A significant and growing body of the literature have argued that *zakat* funds could be used to finance SMEs. Ismail and Possumah (2013), Abdul Rahman et al. (2013), and Ibrahim and Ghazali (2014) argued that integration of *zakat* into the financing of SMEs would help to provide capital to the poor and needy to build their own businesses. Zarka (2007) claimed that there is no question that *zakat* should be paid to the poor and needy. However, helping them to establish their own SMEs is also reasonable from both *Sharia* and economic points of view.

Ismail and Possumah (2013) Ibrahim and Ghazali (2014) stated that in Islam there are several non-profit instruments, such as *zakat*, charity, *waqf* and *qard hassan*; all sources which can be used to help the poor and needy to develop their quality of life, but which could also be used to micro-finance and finance SMEs

3.5.2 Integrating *waqf* (endowment) in the finance of SMEs

In the Arabic language, the word *waqf* literally means to prevent something from moving. In terms of *Sharia*, a *waqf* makes property invulnerable to any disposition that leads to transfer of ownership, and donating the usufruct of the property to beneficiaries (Sadeq, 2002; AAOIFI, 2010; Htay et al., 2013). *Waqf* are usually called endowments in non-Muslim countries.

Sadeq (2002), Mohieldin et al. (2011), and Haneef, et, al., (2014) explained that in Islamic history, *waqf* has played an important role in poverty alleviation; indeed it still plays an important role in Muslim countries, especially in education and health. Aziz, Yusof, Johari, and Sabri (2014) claimed that *waqf* needs an institutional setting to ensure perpetuity and good governance.

Kuwait has contributed to the principle of *waqf* since its establishment as a nation. The inherent and natural inclination of the Kuwaiti people with regard to their devotion to the good has driven them to endow some of their properties (as *waqf*) and to share their proceeds for a variety of purposes. Some of these comprise the construction of

mosques and schools for education and learning of the Holy Quran, as well as offering food and water to the poor and needy.

Those efforts have been crystallized in the establishment of the Kuwait *Waqf* Public Foundation that has been entrusted, through the decree of its establishment, with putting into practice the call for *waqf* and handling all matters related to its affairs. These include the management of its assets and investments; spending their incomes within the limits of the conditions laid down by the donors. These conditions must be met in order to achieve the legitimate objectives of the *waqf* from the public, cultural and societal point of view. The Kuwait *Waqf* Public Foundation is also essential in order to alleviate the burden on needy persons in the community.

The income from *waqf* can be a source of finance for SMEs either through *qard hassan* or as a *mudarabah* contract. Several researchers have concluded that integrated *waqf* in microfinance would be more productive for the benefit of SMEs and would assist them in overwhelming the challenges of conventional finance (Hasan 2011; Haneef et al., 2014; Ibrahim & Ghazali, 2014; Lahsasna, 2013). Lahsasna (2013) argued that some of these benefits include the following:

- Cash waqf increase the collection of liquidity and capital in the industry and create more business opportunity.
- Expand the market by increasing more business activities.
- More job creation:
- Enhancing the national economy by offering: liquidity to the business sector, financing SMEs in the industry, circulating the fund in the market, and creating more employments.

However, although several studies have investigated the role of waqf in financing SMEs and have proposed waqf based models, these studies remain theoretically and conceptually based with little application in real life. In their study about Integrated Waqf Based Islamic Microfinance Model, Haneef et al. (2014) emphasised that the model is yet to be verified empirically and thus, further studies should be conducted to test the model using quantitative techniques such as, structural equation modelling (SEM).

3.5.3 Integrating *qard hassan* in the financing of SMEs

Qard hassan is the only kind of loan known within Islam (Sadr, 2011; AAOIFI, 2014). God refers to it in the Quran: “who is it that will give Allah a gratuitous loan (*qard hassan*), which Allah will double into his credit and multiply many times”. It is a gratuitous loan given to needy people for a specific period. Kallem and Ahmed (2010) stated that Islam does not limit charity to the giving of money to the poor and needy for their consumption, it also encourages the idea of using charity money for productive purposes. Therefore, it is permissible to use *qard hassan* to finance SMEs. This research, discusses the idea of using *qard hassan* in financing SMEs in Kuwait.

While the traditional microfinance industry worldwide has grown at 13% annually since the early 1990s, only very limited information is available about microfinance institutions operating under *qard hassan* (Mohieldin et al., 2011).

A relatively small number of free loans have been made in Pakistan, and there are some small rural banks in Indonesia. However, no organized institutions are known to work on the basis of *qard hassan* except in Iran where it has been utilized effectively to provide funding for those in need, and these institutions are widespread throughout the country (Mohieldin et al., 2011).

Qard hassan could also be considered an excellent tool to be used to support SMEs, and to penetrate low income levels which are deprived of the financial resources that are not exploited properly in Islamic countries (Mohieldin et al., 2011; Naceur et al., 2015).

Sadr (2011) concluded that *qard hassan* loans can be accomplish all the types of request for financing production, consumption and debt finance payment activities’. This second feature makes *qard hassan* contract a very versatile instruments of finance moreover this contract could be joint with other tools to finance all parts of a project. In Iran, there are up to an estimation of 5000 *qard hassan* funds were formed informally.

Islamic finance for SMEs: Questions of perceptions

Although a great deal of research has been conducted to explore the role of Islamic finance for SMEs and for microfinance, in particular with regard to the profit and loss sharing (PLS) instruments, these studies are specific to a particular environment as the majority of them were conducted in very low income countries with a view to using such PLS instruments to alleviate poverty (Sadeq, 2002; Ismail & Possumah, 2013; Hassan, 2014; Ibrahim and Ghazali, 2014). Moreover, although numerous studies have shown theoretically that Islamic finance based on the concept of profit and loss sharing (PLS) is theoretically excellent to conventional finance from different viewpoints, other studies, have claimed that from a practical point of view, Islamic finance is not that different from conventional finance (Chong & Liu, 2007). While on the liabilities side, Islamic banks' interest has been replaced by PLS, on the asset side the alternative modes of financing being used by these banks are controlled by fixed-return modes such as *Murabahah* and Leasing. Therefore, Islamic finance tends to deviate considerably from the PLS paradigm as numerous Islamic financial institutions assume the role of traders and use the modes of trade, but remain financiers. The present research explores perceptions and opinions of different actors in Kuwait (SME owner-managers, managers of financial institutions, and Sharia board members) with regard to the role of Islamic finance for SMEs from a practical point of view.

3.6 Summary

This chapter reviewed the available literature about Islamic finance. It examined the main Islamic finance instruments that are applicable to financing SMEs, such as *murabaha*, *mudarabah*, *musharaka*, *istisna* and *ijarah*, and sets out the main Islamic social responsibilities of the Islamic financial institutions. It further investigated how *zakat*, *waqf* and *qard hassan* might be integrated in financing SMEs in Kuwait. The literature review revealed that although several studies have been conducted about the finance of SMEs, the majority of them focused on conventional finance. The role of Islamic financial institutions in financing SMEs has not yet reached its potential and thus, further empirical studies investigating the role of these institutions and the use of Islamic finance instruments should be conducted.

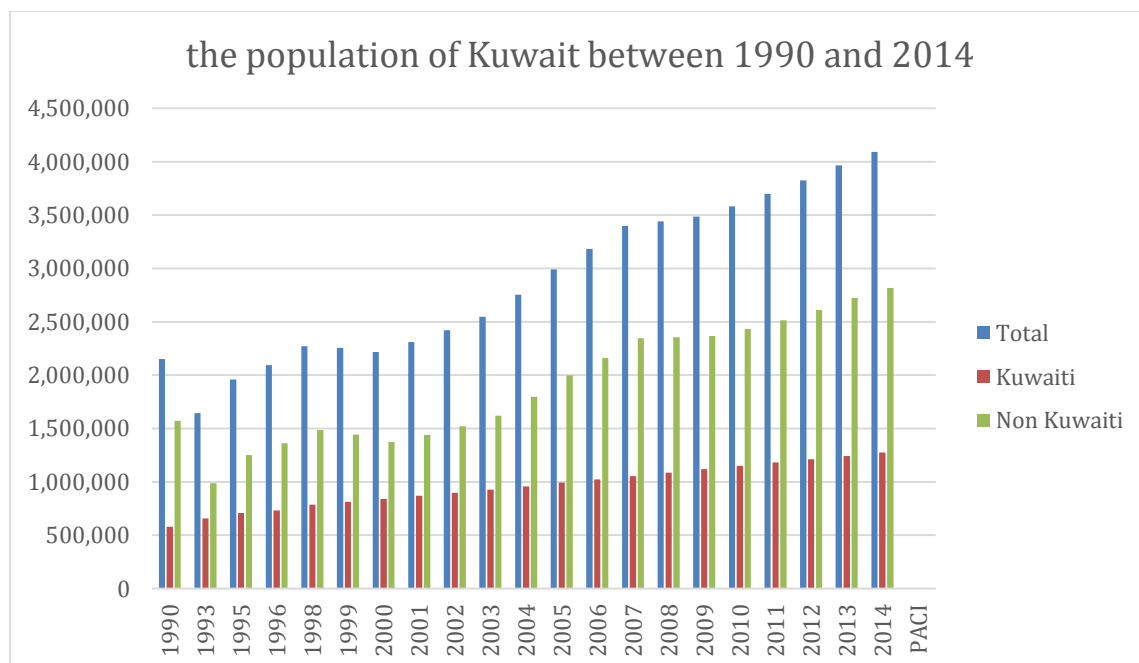
Chapter 4 : The main financial problems and challenges facing SMEs in Kuwait

4.1 Introduction

Kuwait is an independent Arab state which is located in the northwest corner of the Arabian Gulf. The total area of the country is 17,818 sq. km. It has borders with Iraq in the north and west, and to the south and southwest, it shares a border with the Kingdom of Saudi Arabia. To the east it has a coastline of 290 km on the Arabian Gulf (Al-Augby, Majewski and Nerend, 2014; Mutairi and Fayez, 2015).

According to the latest report of the Public Authority for Civil Information (PACI), Kuwait's population stood at 4,091 million in 2014, consisting of 31.2% Kuwaitis (1,275 m) and 68.8% non-Kuwaitis (2,816 m). The annual population growth average between 2005 and 2011 was around 5.4%, of whom 3.3% were Kuwaitis and 6.6% non-Kuwaitis (PACI report, 2014).

Figure 4 The population of Kuwait between 1990 and 2014



The Public Authority For Civil Information (<https://www.paci.gov.kw/Home.aspx>).

The total number of employees in Kuwait, as of June 2010, increase by 7% in the first half of 2010, mainly due to expansion of the non-Kuwaiti workforce. Eighty-two per

cent of the non-Kuwaiti workforce works in the private sector, and 18% in the public sector. There are 1.7 million workers in the private sector, of which 96% are non-Kuwaitis. Table 6 shows the total number of Kuwaitis and non-Kuwaitis by sector.

Table 6 The Kuwaiti labour force, by sector

(In Thousands)	2010	2011	2012	2013	2014
Kuwaitis					
Government Sector	218409	229161	240170	245666	258608
Private Sector	57520	61435	61890	56829	65613
Expatriates					
Government Sector	80377	84328	91163	91505	94660
Private Sector	1045263	1103366	1159987	1249033	1396427

Source: Public Authority for Civil Information 2014

The government employs most of the Kuwaiti workforce, as 79% work in the public sector. There were a total of 294,635 employees in the public sector as of December 2014, of whom 70% were Kuwaiti (PACI report, 2014). Al Wagayan and Alshimiri (2010) explained that employment in the government sector has been the favoured path for many Kuwaitis because of the attractive salary, comfortable working conditions, and high job security. On the other hand, there were 1.9 million non-Kuwaiti employees, who accounted for 84% of the total workforce; more than 93% of the non-Kuwait workforce were employed in the private sector (Global, 2011; PACI, 2014).

This chapter provides background information on the State of Kuwait. It presents the main features and structure of the Kuwaiti economy, both oil and non-oil sectors, and discusses the characteristics of SMEs and the sources of finance available to them. The chapter highlights the main challenges facing SMEs in Kuwait, and the final section looks at government support for these organizations.

Recently the government of Kuwait has highlighted the importance of SMEs in the growth of the economy, especially after several disappointments in assistance and support programmes with regard to SMEs. Therefore, in February 2014, the Kuwaiti government implemented the final legislation for the Kuwait National Fund for SMEs

with a capital of 2 billion. The new fund will be in place by the end of 2014, and the main aim of the new legislation is to support the SME sector.

4.2 The Kuwaiti economy

The Kuwaiti economy is considered to be one of the most vital in the Middle East and Kuwait is one of the world's main oil exporting countries (Al-Augby et, al., 2014; Global, 2014).

Kuwait has witnessed major changes in its economy during the past few years. Before the global financial crisis, most sectors were registering strong growth, particularly those of real estate, banking and investment. Financial progress on a worldwide scale has encouraged new development plans which has enhanced Kuwait's position among other countries and led to an improvement in its infrastructure (Al-Marzoq, 2010; Abotalaf, 2011; CBK, Economic Report, 2013; Mutairi and Fayez, 2015).

Kuwait's economy has slowed noticeably since the fourth quarter of 2008 after several years of steady growth (Global, 2011). The non-oil growth was enhanced notably in 2013 and is predicted to maintain a stronger pace in the period ahead. Capital spending and the government's ambitious development plan drive the improved growth. The newest official figures show non-oil real growth accelerating to 5.6 % in 2013, compared to a mere 0.6% growth the year before. Growth it seems will remain at around 5-6% for 2014 and the coming two years, as the application of the government's development projects maintains a strong hold (CBK, 2014; NBK, 2015).

In February of 2010, in the aftermath of the global financial crisis, the demand for new plans and projects had increased. Kuwait's parliament approved a new development plan, and this had great significance for the Kuwaiti economy given that it was the first to be published since 1986 (KAMCO, 2011).

The government promised that the development plan would help to transform Kuwait into a major financial hub and trade centre by 2035. It plans to expand project

development through local and foreign companies, and to diversify and boost the economy.

The initial plan was to be completed by 2013/2014 and it was estimated that the total cost will be around KWD 37 billion (USD 129 billion). The government and the private sector must make huge efforts towards the implementation of projects such as those listed in the table below.

Table 7 The Kuwait development plan 2013/2014

Project	Estimated Cost (KWD mn)
Silk City	25,000
Railroad System	4,000
College City in Shadadiya	1,597
Boubyan Island Development	1,500
Northern Gas Turbine Station	1,430
Jobber Al-Ahmed Bridge	1,036
Mutlaa Residential City	890
Boubyan Port Development	872
Khiran Residential City	424
Kuwait International Airport (Terminal 2)	329

Source: Global (2011, p.8).

The most important goal of the plan is to revive the economy of Kuwait in an attempt to grow GDP. The plan is expected to:

- Improve individual welfare.
- Highlight the role of the private sector.
- Solve the housing problem, as the new plan includes new residential cities.
- Strengthen the banking sector; more credit lines to companies involved in the new projects.
- Promote all types of investments in Kuwait.
- Diversify the economy and reduce dependence on oil and gas (Abotalaf, 2011).

Due to the increasing importance of SMEs to economies all over the world, it is strongly argued that governments should promote and support their SME sectors (Emine, 2012; Karadage, 2015). It is thus necessary to discuss how government plans will influence and encourage the SME sector in Kuwait. The main objective of Kuwait Vision 2035 is the “transformation of Kuwait into a financial and trade hub for investment, in which the private sector leads economic activity”. Support for the SME sector will be of two kinds, direct and indirect.

With regard to the direct approach: the Kuwaiti government will encourage the sector by establishing the National Fund for Sponsorship and Development of Small and Medium Enterprises, the purpose of which will be to provide financial assistance to SMEs, whilst also allowing them to receive land from the state, and to offer training, technical, and consultative support.

Concerning the indirect approach: one of the Kuwaiti development plan's main goals is to develop the private sector and increase its role in economic growth. This will help to solve the problem of over-dependence on oil as the only source of government income. The literature has suggested that SMEs play a significant role in the private sector (Arafat & Ahmed, 2012; Huda, 2012; Mohammed, 2015a), and it must be acknowledged that most companies established in Kuwait are in reality SMEs. The new plan consists of more than 1,000 projects of different sizes, and most will target the SME sector. The government will further support the sector by offering contracts for the provision of products and services to SMEs. (Al Wagayan & Alshammiri 2010; Almutairi, 2015).

Furthermore, the government aims, through this plan, to solve the accumulation of workers in the public sector, and the literature shows that SMEs are an important key to solving unemployment in various countries (Ali, 2013; Smallbone & Welter, 2014). As the researcher stated earlier, the Kuwaiti government employs most of Kuwait's workforce, as 79% work in the public sector, and SMEs represent an important vehicle to faster entrepreneurship for the state, because they increase nationals' employment in the private sector. Therefore, the government plans to encourage employment in the private sector by offering specified salaries for full-time entrepreneurs, equivalent to those received by their counterparts in qualification and experience who have been appointed to government jobs. (IBK Annual Report, 2013).

Moreover, the new government plan has many major projects, such as the Silk City, Railroad system, and college city in Shadadiya, which will be offered to large companies in Kuwait. Those large companies will use SMEs to obtain their products and services, thus supporting the SME sector. Smallbone and Welter (2001)

recommended that SMEs should play a significant role in contributing to the development of the supply base to serve the needs of large firms.

4.2.1 Economy's features

Kuwait's economy could be described as a small open economy, with a single income; it has the world's fourth largest oil reserves among the world's largest oil producers. As such, the Kuwaiti economy is heavily dependent on the oil sector (KCN, 2013).

4.2.2 Economic structure

The Kuwaiti economic deficiencies and the fundamentals and principles of economic business are as explained below:

1- Kuwait's economy is a single resource and return type economy based on two sources: oil export revenues and foreign investment returns.

These two sources are too unstable and unreliable to be solid foundations for development; Kuwait's economy is now on the way towards change.

2- The Kuwaiti economy is one in which economic activity is closely linked to public government expenditure. The role of the private sector with regard to building up the GDP is still a small share in comparison to the huge share of the oil sector in the GDP.

3- The Kuwaiti government still provides social services free of charge and subsidises the prices of many goods and services without any significant role for the free market system in this area.

4- Kuwait's ability to attract foreign investment is still limited for several reasons that limit the inflow of capital.

5- International reports indicate that the procedures for obtaining the necessary approvals and licenses for private sector business are lengthy (KMF, 2008/2009).

4.2.2.1 The oil sector

Kuwait has the fourth largest proven reserves of crude oil in the world and is among the world's largest oil producers. As such, the Kuwaiti economy is extremely dependent on the oil sector, which accounts for over half of gross domestic output (Al-Augby et, al., 2014).

The average crude oil production of Kuwait was around 2.6 million barrels per day (MBD) in 2008, near the maximum production capacity. However, as an OPEC member, Kuwait must limit its output to the assigned ceiling, although production tends to be slightly above the OPEC target especially when oil prices are high.

Oil production is poised for a major expansion in coming years with investment in the sector. The plan is to expand crude production capacity to 3.5 MBD by 2015 and to 4 MBD by 2030. To attain this goal, an ambitious investment programme has been initiated by the authorities in recent years.

The oil sector is run completely by the state-owned Kuwait Petroleum Corporation (KPC) and its subsidiaries. Subsidiaries responsible for oil sector activity in Kuwait include the Kuwait Oil Company (KOC), which is responsible for exploration and production, and the Kuwait National Petroleum Company (KNPC), which runs the local refineries and domestic retail stations. The Petrochemical Industries Company (PIC) is another subsidiary which is responsible for several petrochemical plants. Kuwait Petroleum International (KPI) runs the refineries outside Kuwait and is in charge of international marketing (Al-Augby et, al., 2014).

The role of the private sector in the oil industry is currently limited to providing services and construction mainly on a contractual basis. The government is anxious to expand the involvement of international firms in Kuwait's oil sector through the Kuwait's Project.

4.2.2.2 The non-oil sector

The two main objectives of the Kuwaiti government's strategy for developing the economy have accelerated the growth of non-oil GDP and expanded the role of the private sector (Global, 2014).

The progress record over the past two years – the highest rate in the past decade and a half, except for the strong recovery following the 1990 invasion – could very well set the stage for Kuwait's diversification drive and achievements of its key objectives.

Kuwait is well placed to take benefit from its immediacy to Iraq and Iran (two populous countries in the region) and its active role in reconstruction efforts in Iraq to promote non-oil sector performance is sustainable, especially in sectors such as tourism, transport and communications, and the wholesale and retail trade (IMF, 2005).

The private and banking sectors are the two main non-oil sectors in the Kuwaiti economy (CBK, Economic Report, 2013 Naser, Al-Salem & Nuseibeh, 2014).

4.2.2.2.1 The private sector

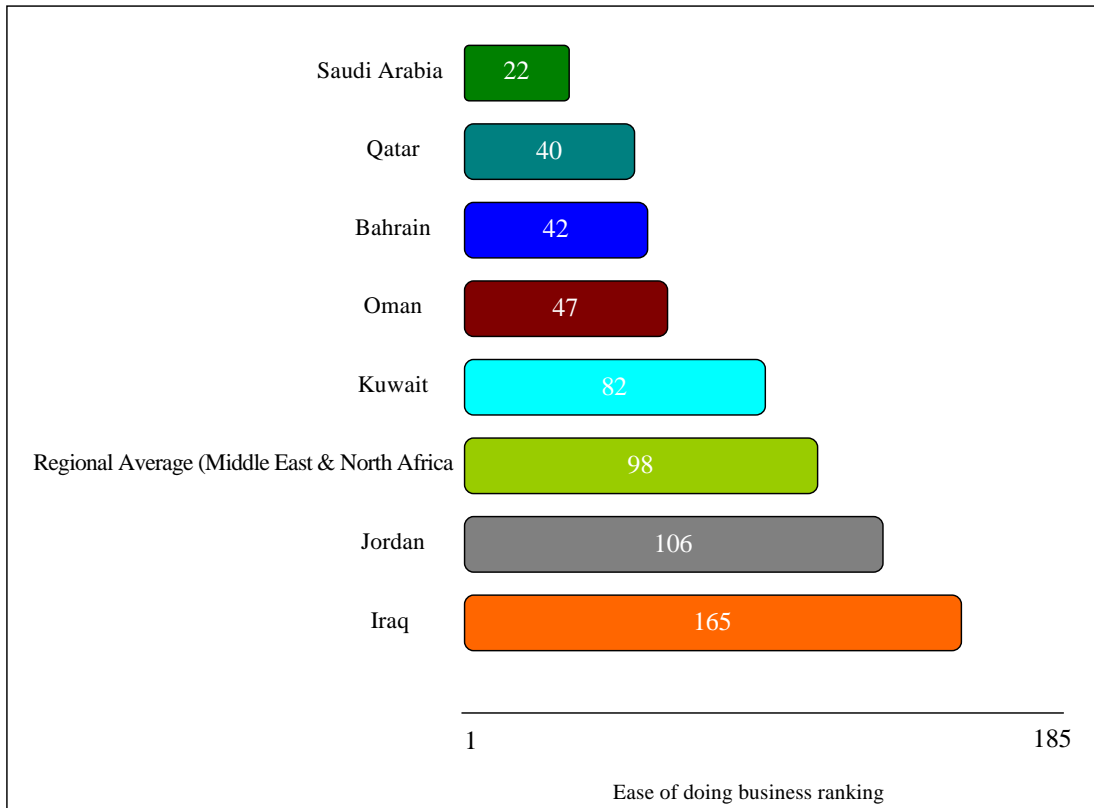
Kuwait's development plan aims to strengthen the private sector and diversify the economy, which has been dominated by the oil and gas sector. The projects of the plan will be developed by the government through capital expenditures, or by the private sector, particularly through a build, operate, transfer (BOT) (Global, 2014). The private sector will also participate in the agenda for development through privatization of government bodies, such as Kuwait Airways and several electricity and water stations. Under the new plan, the real GDP of the private sector is expected to grow at an average rate of 8.8%, while non-oil GDP is expected to witness growth at an average rate of 7.5% during the same period (Global, 2011).

The World Bank report (2010) on conducting business highlights how easy or difficult it is for a local entrepreneur to run an SME whilst complying with the relevant regulations. It measures and tracks many areas in the life cycle of a business: starting a business, dealing with construction permits, sourcing electricity, registering property, obtaining credit, protecting investors, payments, resolving insolvency and hiring workers. The report compared 185 economies, from Afghanistan to Zimbabwe, over time and included 19 countries in the Middle East and North Africa. Thus, it assists policy makers to improve their economy's regulatory environment for business by comparing the regulatory environment in other economies.

Globally, Kuwait ranks 82nd out of 185 with regard to ease of doing business (see Figure 5). It is important for policy makers to know where their economy stands in the

overall rankings, but it is also valuable to know how it ranks to comparator economies as well as to the regional average.

Figure 5 How Kuwait and comparator economies rank with regard to ease of doing business



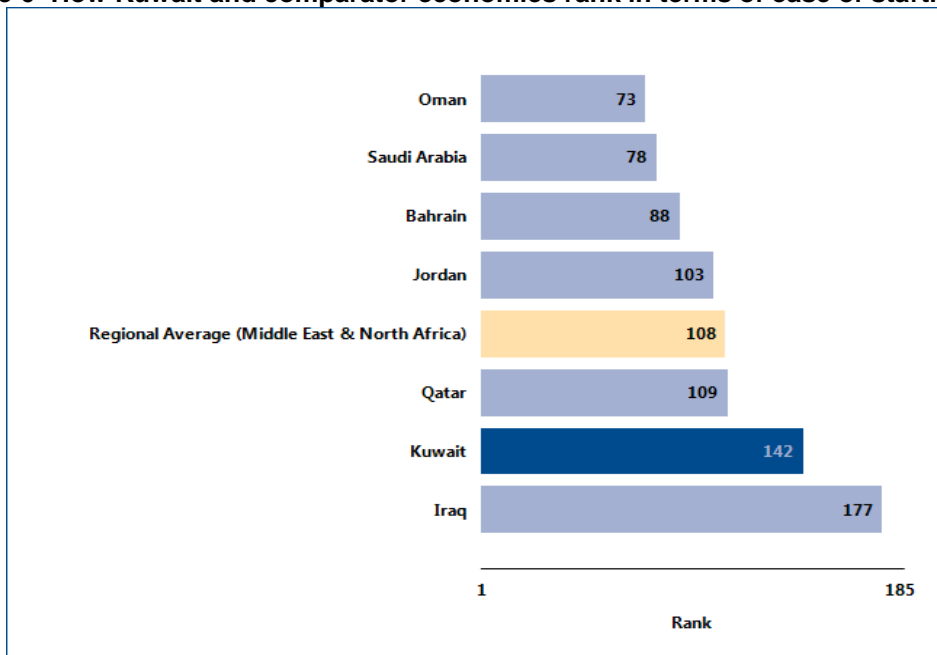
Source: Dowing business in Kuwait (2013).

According to Figure 5, the regional average for the Middle East and North Africa, of which Kuwait is a part, is 98 whereas Kuwait alone stands at 82, which means that Kuwait is above the regional average. However, if we compare Kuwait with other countries in the GCC, there is a greater difference; for example, Saudi Arabia stands at 22 in the ranking, and Qatar is at 40 for ease of doing business.

Starting a business

From the 2012 World Bank report on how easy it is to start a business, the regional average for the Middle East and North Africa is 108, whereas Kuwait ranked 142 out of 185 (see Figure 6).

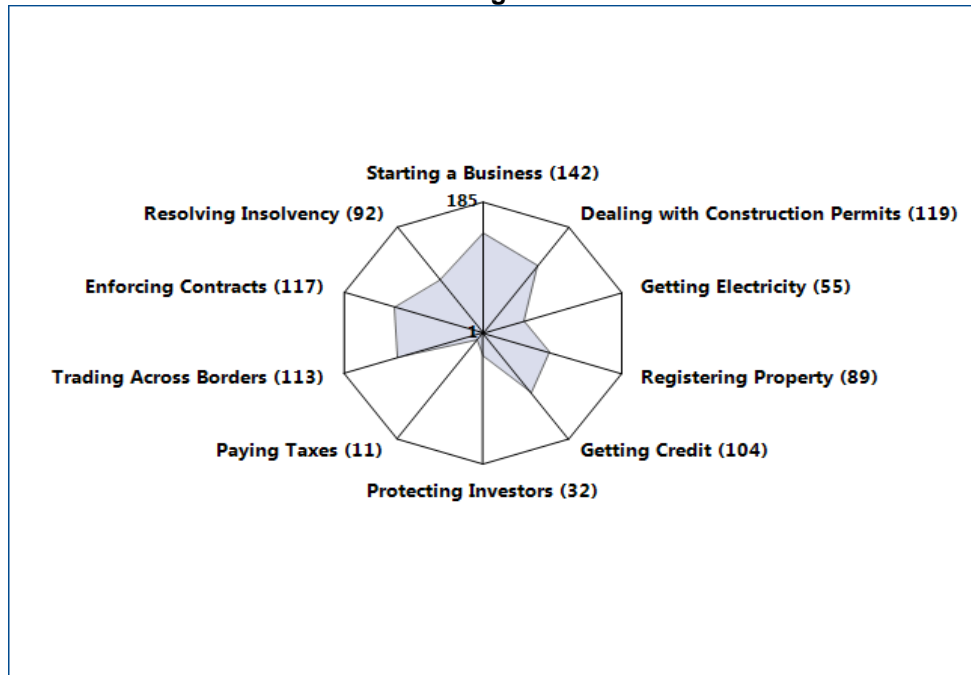
Figure 6 How Kuwait and comparator economies rank in terms of ease of starting a business



Source: Dowing business in Kuwait (2013).

Kuwait is below the average for the region with regard to how easy it is to start a business. As previously mentioned, the report measures and tracks many areas in the life cycle of a business: starting a business, dealing with construction permits, sourcing electricity, registering property, obtaining credit, protecting investors, payments resolving insolvency and hiring workers. Figure 7 shows where Kuwait stands in all of these areas.

Figure 7 How Kuwait ranks in terms of doing business



Source: Doing business in Kuwait (2013).

Figure 7 is useful when assessing the most important difficulties and obstacles facing SMEs in Kuwait.

4.2.2.2.2 The banking sector

Kuwait's banking system is one of the most powerful in the Middle East, benefiting from a robust financial profile, strong support mechanism and limited competition from foreign banks. There are a total of 10 local banks and 9 international banks currently operating in the country. The banking system is evolving in terms of regulation as well as development of new and better products. The strength of the banking system is derived from supportive government policy, as well as assisted by higher than average capitalisation (Naser, 2013).

The Central Bank of Kuwait

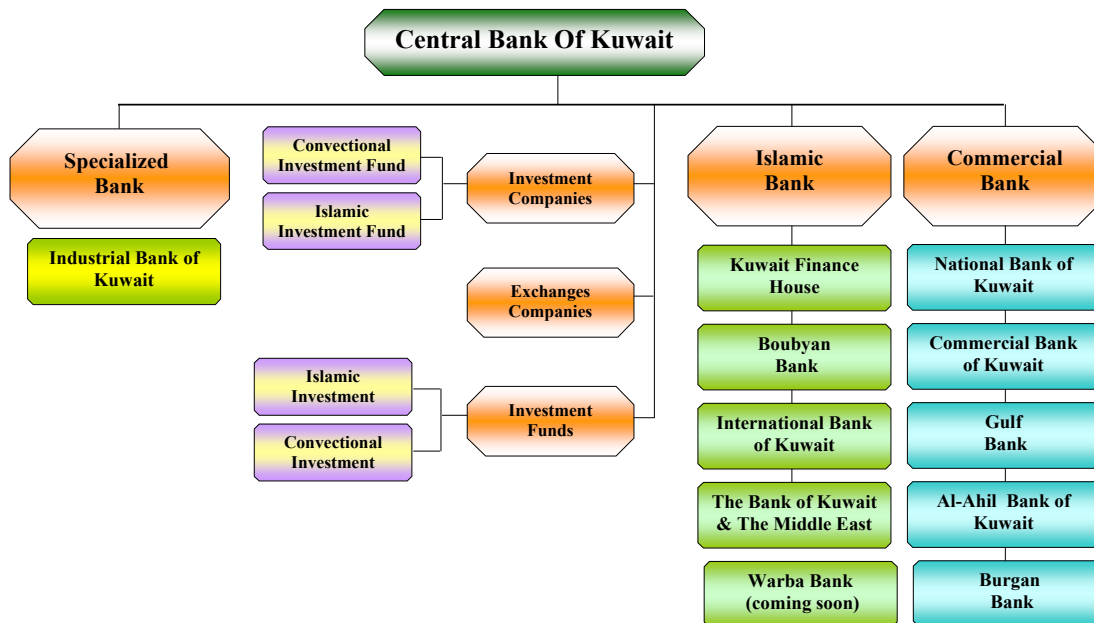
The Central Bank of Kuwait (CBK) was founded in 1969 with a mission to maintain a flexible monetary financial system which would be stable in the State of Kuwait. The main aims of the (CBK) are to:

- Issue the Kuwaiti Dinar on behalf of the State of Kuwait.
- Direct credit policy to help social economic progress.

- Assist the growth of the national income.
- Control the banking system in the country.
- Act as banker to the government.
- Provide financial advice to the government (CBK website).

Figure 8 shows the structure of the financial system in Kuwait indicating that the Central Bank of Kuwait is at its head. There are specialized banks, Islamic banks and commercial banks but there are also investment funds, exchange companies and investment companies.

Figure 8 Financial systems in Kuwait



Commercial banks

The first commercial bank was established in 1952, under the name of National Bank of Kuwait, then in 1960, two other banks were set up: the commercial Bank of Kuwait and the Gulf Bank. In 1967, the Al-Ahli Bank of Kuwait came into existence. The founding of the bank of Kuwait and the Middle East in 1971 replaced the British Bank of the Middle East. Finally, in 1976 the Burgan Bank was established (Almutari, 2010).

Specialized banks

In the early 1970s, specialized banks were established in Kuwait as a positive step for long and medium-term loans. Three banks were created and there were great expectations with regard to the financing and promotion of investment projects and different sectors; this was intended to enhance the national income (Al-Fadhli, 1998).

Until 1993, there were three specialized banks in Kuwait: the Industrial Bank of Kuwait (IBK), the Kuwait Real Estate Bank, and the Saving and Credit Bank (SCB). Then in 1994, the Saving and Credit Bank passed into the control of the Public Authority for Housing Care. The Kuwait Real Estate Bank fully converted in 2007 into an Islamic bank that operates according to Islamic *Sharia* law and became known as the Kuwait International Bank (KIB).

The Industrial Bank of Kuwait was established in 1973 on the initiative of the government of the State, as a specialized bank dedicated to supporting the industrial sector. The bank provides medium and long-term funding for the establishment, expansion and modernization of industrial units in the country. It also offers a full range of commercial banking treasury products to meet the working capital needs of its industrial customers (The IBK, 2013).

Islamic banks

Ten years ago, no one expected the banking sector in Kuwait to be divided almost equally between Islamic and conventional banks. Even the Kuwait Finance House (KFH), the first Islamic bank in Kuwait, had been working under a special license and not equivalent to bank status. By the end of 2010, four out of the nine banks in Kuwait were Islamic. Al-Ahli United Bank and Kuwait International Bank have now fully converted into Islamic banks, and Boubayan Bank was established in 2002 as an Islamic Bank. Moreover, Warba Bank (Islamic) was established in 2011, which means that the banking sector in Kuwait is divided between conventional and Islamic Bank (Ziyadat, 2010; Naser, 2013).

The Kuwait Ministry of waqf and Islamic Affairs delivers full guidance and regulation to *Sharia* boards at Islamic financial institutions. The Central Bank of Kuwait

announced Islamic banking laws in 2003 and confirmed highly regulated and transparent Islamic banking and financial practice within the country (Khan & Bhatti, 2008).

Investment companies

The importance of these establishments was significantly increased because of the availability of surplus funds from both the government and individuals due to growing oil revenues. At the beginning of the 1960s, the objective was to create such companies by investing some of the State's surplus funds abroad, and through the possession, management and marketing of foreign debt debentures (Al-Fadhli, 1998; CBK Financial Stability report, 2014).

Al-Youssef (1997) stated that the Kuwaiti economy is characterized by a number of primary features. Its dependence on oil as the one source of income is the most important, but others are:

- Imbalance of the industrial structure
- Limited housing capacity
- The leading role of public expenses
- Differences within the population structure and reliance on an expatriate labour force.

Consequently, the negative outlook for Kuwait's economy has forced the government to address those features which will promote growth and prosperity.

4.3 SMEs in Kuwait

In the early 20th century and before the discovery of oil, the Kuwaiti economy was based on trading, traditional micro and small enterprises, and handicrafts to meet the elementary needs of locals and foreign traders. Shipbuilding, fishing, diving for pearls, and construction are examples of the economic activities at that time.

However, in 1934, many structural changes happened as a result of the discovery of oil. For instance, numerous small business owners expanded their firms and became large company owners, and many craftsmen left their jobs to work for the government. As a result of this, the contribution of small businesses to the economy declined as the

public sector and large industrial and financial businesses expanded significantly (Al-Saif, 2002).

SMEs are an important part of many global economies in terms of their contribution to GDP and employment. They have also played a significant role in some GCC States, such as the United Arab Emirates (UAE), which relies on SMEs for 30% of GDP and 86% of its employment. Comparably, in Saudi Arabia, SMEs contribute 28% of GDP.

On the other hand, Kuwait was late to appreciate the key role that can be played by SMEs enterprises in the economy. The private sector and SME contributions to employment lack lustre, and the government currently employs about 85% of Kuwait's workforce.

Rampurwala and Marafi (2011) found that the private sector in Kuwait's growth is now unable to create enough jobs for the citizens of Kuwait and this situation is clearly unsustainable; with the increasing population, the public sector will inevitably be limited in its capability to afford jobs for all. It is consequently imperative that the SME sector be developed to play a principal role in employment creation over the coming years.

Al Wagayan and Alshammiri (2010) Mutairi and Fayez (2015) claimed that the Kuwaiti government should assist the development of the existing SMEs in Kuwait, since this sector can significantly contribute to employment generation in the country. More importantly, as Kuwait's economy gets privatised, the SME sector would help the economy movement to progress.

4.3.1 SMEs' characteristics in Kuwait

Although Kuwait has many organizations that support SMEs, there is no agreed definition for such an enterprise. Some organizations use the employee numbers standard and some use the capital standard while others use a combination of the two to define SMEs. The Kuwait Chamber of Commerce and Industry defines small projects as those which employ less than ten workers, whereas, the General Industry Board and the Trade and Industry Ministry describe a small project as one with capital between 50,000 and 250,000 Kuwaiti Dinars (KWD) (1 KWD = 2.67 GDP). Meanwhile,

the Kuwaiti Industrial Bank classifies a small project as one whose capital does not exceed 500,000 Dinars (Alhajeri, 2012).

The Kuwait Small Projects Development Company, a government company that finances SMEs, considers projects with capital up to 150,000 KWD as small and those with less than 500,000 KWD as medium-sized. The number of employees does not appear to be used as a size criterion (Hertog, 2010).

Rampurwala and Marafi (2011) Mutairi and Fayez (2015) suggested that, in Kuwait, local policies are fragmented and although several organizations see the benefit of SMEs, they are still in their beginning stages. This means that the launch of new SMEs is likely to be weak, thus reducing their opportunity to contribute to the economy.

4.3.2 Sources of finance for SMEs

SMEs have faced limited access to banks in Kuwait. Several bank managers have stated that their institutions do not involve themselves in simple credit relationships with SMEs, and rarely in simple credit relations with large enterprises (Mansur, Davoodi, Delgado, Govil & Takizawa, 2005; al-waqayan & Alshimiri, 2010; Al-Marzouq, 2010).

The University of Kuwait and the World Bank conducted a survey of 483 SMEs in 2000 and their conclusions were further evidence of the difficulties faced by SMEs when seeking to obtain loans from commercial banks. Kuwaiti banks are unwilling to extend long-term loans to SMEs in large volumes. It appears that this is because of interest rate caps that stop banks from pricing loans to cover actual risk and to a prevailing culture of lending mainly for trade and for personal consumption (Mansur et al., 2005). The fact that SMEs face difficulties in obtaining finance from banks has also been identified by Emine (2010) who suggested that although most banks in the GCC countries are already engaged in financing SMEs and already have separated units to manage them, the average share of SMEs in GCC countries is less than 2% of total lending.

Kuwait has two kinds of financing for SMEs: the first is the specialized SME financial institutions and the aim of these organizations is to offer a loan to start-ups; the second kind of organization is the Islamic and commercial banks.

4.3.2.1 Specialised SME financial institutions

The Kuwaiti government believes in the great role that could be played by SMEs in economic and social development because it feels that they could help to solve employment problems. Consequently, it has collaborated with government banks, commercial banks and Islamic banks to provide support for SMEs in the form of financing, regulation and training.

The following are the two main organizations that have specialised in financing SMEs in Kuwait.

4.3.2.1.1 The Industrial Bank of Kuwait

The Industrial Bank of Kuwait (IBK) was established in late 1973, and most SMEs in the State opt for finance from IBK. The IBK obtains long-term finance from the government, at a negotiated rate, and this is used to provide credit to SMEs (total investment value ranging typically between KWD 1 million and KWD 7 million) at a fixed rate under the Central Bank of Kuwait (IBK, Annual Report, 2013).

IBK has two programmes available for SMEs and professionals:

- 1- The programme for small enterprises (handicraft and small enterprise financing portfolio) was established in 2000, and provides finance through Islamic instruments. Loans are substantially smaller than in the industrial loans programme (average of KD 70,000 per operation).
- 2- The professionals programme (portfolio for financing professional activity and small projects) started in 1999. The IBK directs an endowment of KD 50 million, for 20 years, provided by the Industrial Investment Public Authority, to be invested in accordance with Islamic Sharia provisions. The programme offers short, medium and long-term funding for an amount ranging between 65% and 80% of the total investment (of no more than KD 500,000) (IBK, Annual Report, 2013).

The Industrial Bank of Kuwait imposes some conditions that must be met by the client in order for them to obtain finance for SMEs. These include the following:

- The requisite licenses to practice the activity must be obtained from the official boards.
- The supported person should be Kuwaiti and in the case of companies, all partners should be Kuwaiti.
- The owner of the small project should work as a full time worker and have no other job, especially with the government.
- Priority in financing is for university graduates of the scientific institutes and practical schools.
- The total amount invested should not exceed 500,000 Dinars.
- Profit calculated on the portfolio's finance is 2.5% (IBK, Annual Report, 2013).

4.3.2.1.2 Kuwait Small Projects Development Company

The government of Kuwait wanted to correct the imbalance in employment between the private and public sectors, so a new policy was implemented in 1996 to encourage Kuwaitis to work in the private sector. A new company was founded in 1997 to carry out this mission on behalf of the Kuwait Investment Authority, named the Kuwait Small Projects Development Company (KSPDC) (Al-Saif, 2002).

The main advantage of the KSPDC is that the funds are in the form of venture capital. Therefore, no collateral is required. KSPDC provides technical and legal financial support to SMEs, and finances up to 100% of the establishment fees for SME start-ups, including due diligence, legal documents, and employment needs, plus up to 50% of the capital needed for the projects.

The establishment statute of KSPDC specified five objectives. They are as follows:

- Creation or participation in SMEs to meet the needs of the industrial and commercial sectors, professionals, and those involve with handicrafts.
- Assisting Kuwaitis to develop their skills and supporting them to engage in SMEs needed by the country.

- Supporting the finding of jobs for graduates from institutions of technology and industrial institutions.
- Assisting in the development of handicraft and professional projects with native Kuwaitis.
- Organizing studies to identify the SMEs in the industry, trade, crafts and professions sectors that may require help, and would benefit from the employment of Kuwaitis; engaging them in these projects; and offering guidance and advice.

KSPDC conditions

As the KCPDC provided a venture capital fund, to participate in the establishment of an SME, there are a number of conditions:

- The owner-manager of the SME must be a Kuwaiti national.
- The applicant must be between 21 and 42 years old.
- Full-time dedication to the project.
- The capital for the project should not exceed 500,000 Dinar (USD 1.5 million).
- KSPDC's maximum equity participation is 50% of the total cost of the project.
- There must be an exit plan in place for five years after start-(Al-Saif, 2002).

4.3.2.2 Islamic and commercial banks

The banking sector in Kuwait has witnessed great growth during the last two decades, to become one of the main pillars of the Kuwaiti economy (CBK, Economic Report, 2013; CBK, 2014).

Kuwaiti banks announced a strong recovery in their profitability in 2014 after a noticeable reduction in 2013; net income after tax, on a consolidated basis, surged by 26.5% in 2014 to reach KD 656 million from KD 519 million a year earlier. It was the first year to evidence solid progress in the bank's net income after three successive years of either almost flat or negative growth (CBK, 2014). Moreover, the profits of the National Bank of Kuwait (NBK) and Kuwait Finance House (KFH) accounted for 71% of total profits in the banking sector (Global, 2011).

These banks provide finance for SMEs. The types of finance differ from short to medium or long-term and also they differ depending on whether the loans are secured.

This is based on the firm belief of the banks in the positive role that can be played by SMEs in developing the Kuwaiti economy.

Some banks have established banking units to serve and support SMEs such as:

4.3.2.2.1 Kuwait Finance House

The Kuwait Finance House (KFH) was established in 1977 as the first Islamic bank, 49% owned by the Kuwaiti government. It is the largest Islamic financial institution in Kuwait, and the second largest bank in the country with KD 2.3 billion deposits at the end of 2003 (Naser,2013).

KFH offer a varied series of Islamic finance products for SMEs, including discounts on effects, deferred sales, leasing, factoring, and venture capital (KFH, Annual Report, 2014).

The KFH has more than 500 SME customers, and has developed specific products for SME finance, including cooperative financing (Mansur et al., 2005; KFH, Annual Report, 2014).

4.3.2.2.2 National Bank of Kuwait

The National Bank of Kuwait (NBK) was the first indigenous bank when it was founded by leading Kuwaiti businessmen in 1952. NBK offers a full range of banking facilities to its corporate customers. It has a department for SMEs to satisfy a certain sector of the local market – that is, small commercial activities with annual income below 5,000 Dinars – with the object of developing the local market by providing for the financial needs of the SME owner (NBK, Annual Report, 2013).

4.3.3 Problems and challenges faced by SMEs in Kuwait

Before reviewing the problems and challenges affecting SMEs in Kuwait, it is important to highlight certain facts.

1. The majority of Kuwaiti employees work in the government sector; they account for approximately 95% of the labour force.
2. The number of Kuwaiti employees in the private sector is only 5% of the total labour force.
3. Every year more than 5,000-8,000 graduates from university are expected to enter the labour market.
4. The population of Kuwait has doubled in the last 30 years.
5. The proportion of the Kuwaiti population under 19 years old exceeds 50%.
6. In 1995, the projected number of job applications was expected to rise from 13,000 in 1998, to around 22,500 by 2010 (Alyoussef, 1995; NBK 2013).

Al Wagayan and Alshammiri (2010) stated that, although the Kuwaiti government has provided many finance programmes for SMEs, the motivation for Kuwaitis to establish original and potentially successful SMEs is relatively low. The survey, conducted by the University of Kuwait and the World Bank, recognized the main role of the public sector as the main obstacle to SME development. The main problems in the business environment, explaining the difficulties found for SME development are:

- 1- Government subsidies on special goods and facilities exclude the possibility for private sector competition in their production.
- 2- A tremendous amount of business opportunities depend on government contracts.
- 3- Work in the public sector offers high salaries, better working conditions and social status, and full employment; this does not encourage the development of SMEs in Kuwait.
- 4- Over-regulation further raises the cost of doing business (Mansur et al., 2005).

In 2003, the KSPDC conducted a survey to pinpoint the obstacles facing the entrepreneurs. The survey results show the following obstacles:

- Lack of capital.
- Lack of data and market information.
- Lack of expertise in finance, marketing, accounting, and many technical aspects of the project.
- Government procedures are long and complex.
- Foreign imported goods compete with local products.

- No government support for SMEs seeking government contracts, and no support for exports.
- No legislation to support SMEs in Kuwait (Al-Saif, 2002).

4.3.4. Government support

The Kuwaiti government has been playing a fundamental role in promoting entrepreneurial spirit among Kuwaitis. It has provided many very attractive finance packages and programmes to support SMEs through different government agencies and funds. It aims to motivate Kuwaiti manpower to find employment with non-government bodies. To this end, it supports the private sector and encourages SMEs through the Kuwait government law no 19/2000, aiming for national manpower support and the promotion of employment in the private sector. This can be achieved particularly through:

- Reformation of the structural shortage of workforce in the private sector where the non-Kuwaiti manpower constitutes the majority thereof.
- Endorsement of regulations that motivate the private sector to employ national manpower (KMF, 2008/2009).

Workforce Restructuring's Program and Executive Body

The Program of Workforce Restructuring and Executive Body is the main organization for the support and development of SMEs in the private sector. It was established in 1997 in order to correct local labour market distortions and to modify the employment path from the government sector to the private sector (Salih, 2010; Randeree, 2012).

The programme plans to seek innovative solutions for the improvement of national employment and work directed to non-government organizations and supports SME projects that are consistent with the development objectives of the State and the reduction of unemployment through the following mechanisms: (Salih, 2010; Randeree, 2012).

- Offering jobs for citizens in the private sector.

- Contributing to the easing of the financial burden on the State which results from government appointments.
- Reducing unemployment.
- Contributing to modification of the composition of the labour market.
- Providing support to motivate national labour to work in the private sector.
- Assessing finance projects through financing institutions and banks in Kuwait.
- Holding specialized training courses in the field of starting SMEs to help the owner-manager.
- The development of legislation directed at the labour market.
- The development of studies and databases related to the labour market.
- Supporting employees in the private sector with a monthly salary.

4.4 Summary

This chapter has discussed the context of Kuwait which is the setting for this research. It presents the key features of the economy, the oil and non-oil sector, highlights the main local SMEs' characteristics, the main local financial institutions, and the main challenges they face. The last part of the chapter describes government support provided to SMEs in Kuwait. It seems that in the coming years, SMEs will be expected to play a critical role in contributing to employment and GDP.

This chapter completes the theoretical foundation of the thesis. In the next chapter, the methodology applied in this study is explained.

Chapter 5 : Research methodology

5.1 Introduction

Having reviewed the literature about Islamic finance for SMEs, the next step of this research study is to provide a detailed explanation of how the research was conducted and processed. Therefore, this chapter attempts to provide the reader with an understanding of the methodology adopted in this research study to investigate the role of Islamic finance for SMEs in Kuwait. The chapter initially discusses the research philosophy, approaches and strategies used in the study and provides the reasons for their selection. Secondly, the chapter explains the suggested research design that has been followed in the current research study, including research phases and process, with a discussion of data collection instruments and analysis. Finally, the chapter wraps up with a discussion of the ethical considerations as well as validity and reliability of the study.

5.2 Research philosophy

A research philosophy encompasses the way in which knowledge is developed and the attributes of that knowledge (Saunders, Thornhil, and Lewis, 2009). Johnson and Clark (2006) stated that it is important to start with the philosophy for any research because the philosophy will have a great effect on what we do and how we understand it. Dainty (2007) confirmed the importance of establishing a philosophical stance for the research and an orientation for the inquiry. The selected philosophical approach will support a number of different research paradigms, in the social sciences, that relate to ontology and epistemology. Saunders et al., (2009) stated that it is important to examine two main ways of thinking about research philosophy: ontology and epistemology. The importance of examining and choosing a philosophy lies in the fact that it enhances the way in which the researcher approaches the study of a particular field of activity (Saunders et al., 2009).

Ontology and epistemology are two main ways of thinking about research philosophy. Each contains important differences which will influence the way in which the researcher thinks about the research process.

5.2.1 Ontology

Ontology is concerned with the nature of existence, being or reality. Bryman (2012), Saunders et al., (2009), and Ryan et al., (2002) described ontology as a philosophical belief system that considers the nature of reality and existence. This raises questions concerning the assumptions research makes about the way the world works and the commitment held to particular views.

This research falls within the broad field of interest of financing for SMEs and the role of Islamic finance institutions; it is most centrally concerned with human thought, feeling and perception as they relate to the concept of SMEs. These are difficult and personalised cognitive phenomena, and there are a number of issues that could affect them, including belief, and the attitudes and experiences of the SME owners and of bankers. Whilst it might be possible to conduct research in this area, it seemed more productive to investigate the experience and attitudes of current SMEs, financial institutions and *Sharia* boards towards the topic. Creswell (2012) suggested that, when researchers conduct qualitative research, they are embracing the idea of multiple realities. When they study the individual, qualitative researchers conduct a study with the intent of reporting these multiple realities.

5.2.2 Epistemology

Epistemology is the theory of knowledge. In terms of social research, epistemology must be considered, whether in the strategy of the research project or in the defining of the knowledge that should be considered in relation to the phenomena being studied. Crotty (1998) stated that “Epistemology is concerned with providing a philosophical grounding for deciding what kinds of knowledge are possible and how we can ensure that they are both adequate and legitimate.”

In this research, the required knowledge was gained through the examination of the Kuwaiti environment, in which SMEs that require finance and the Islamic financial organizations, operate and through the information that was obtained from the semi-structured interviews. It is recognized that the understanding between the parties has

been one of the most difficult epistemological problems. Creswell (2012) suggested that:

“Conducting a qualitative study means that the researcher must try to get as close as possible to the participants being studied. Therefore, subjective evidence is assembled based on individual views. This is knowledge is know – through the subjective experiences of people. It becomes important, then to conduct studies in the field where the participants live and work. These are important contexts for understanding what participants are saying.”

5.3 Positivism versus interpretivism

In terms of philosophical concepts, it is useful to provide a brief overview of positivism and interpretivism to clarify the issues. The main characteristics of, and the differences between, positivism and interpretivism are summarized by Levy (2006) in the following table:

Table 8 The differences between positivism and interpretivism

Epistemology	Positivism	Interpretivism
Nature of being; nature of the world	Have direct access to the real world	No direct access to the real world
Reality	Single external reality	No single access to the real world
Grounds of knowledge between reality and research	Possible to obtain hard, secure objective knowledge	Understood through perceived knowledge
Research focuses	Research focuses on generalization and abstraction	Research focuses on the specific and the concrete

Source: Levy (2006, p.376)

The purpose of interpretive research is to understand phenomena in depth and to provide richness. Neuman (2000) suggested that researchers who adopt an interpretive stance are essentially focused on the investigation of certain phenomena. In this research, this will be achieved by using semi-structured interviews to produce evidence that leads to understanding the phenomena under consideration and answers research questions. This is supported by the analysis of documentary material generated by the institutions involved.

This research focuses on delivering improvements to our understanding of the

phenomena under examination, exploring perspectives, and experiences of the interviewees with regard to finance for SMEs in Kuwait. This places the study, which will adopt the use of qualitative data, in the epistemological domain of interpretivism (Levy, 2006).

Schwandt (1994) emphasizes that interpretive research not only seeks to establish and consider meaning but also aims to develop a good understanding of the meaning assigned to a situation by various individuals. The main focus of this study is the experiences and the opinions of the interviewed SME owners, bank managers and *Sharia* board members.

Having examined the related main philosophical paradigms, this research study now moves on to consider and highlight alternative philosophies of finance and accounting research

5.4 Research approach and strategy

Creswell (2012) declared that it is important to illustrate the research approach, as a strategy for increasing the validity of social investigations. Gill and Johnson (2010) defended the importance of determining the research approach from three points of view.

- First, by categorising the type of evidence that needs to be collected, and from where and how, it helps to answer research questions.
- Secondly, in terms of defining the research strategy; for instance, an inductive approach is more compatible to use in research with an interest in understanding phenomenon instead of describing it.
- Thirdly, in terms of adapting the research to cater for limitations.

For a study that involves the use of a theory, there are two types of research strategy that can be employed. Bryman (2012) proposed that the nature of the relation between theory and research, in particular, whether theory directs research (known as a deductive approach) or whether theory is the outcome of research (known as an inductive approach)

The inductive and deductive approaches are discussed in the following section.

5.4.1 Inductive and deductive approaches

A number of writers on research methods (Saunders et al., 2009; Gill & Johnson, 2002; Bryman, 2012) state that there are two available approaches to using a research theory: deductive and inductive.

5.4.1.1 Deduction: testing theory

Deductive research starts with a theory and proceeds by testing hypotheses derived from the theory. Choosing a deductive approach for practical studies presents a range of challenges for this study. First, the study needs to find a relevant, interesting theory in current use that is sufficiently specific to allow the creation of hypotheses's testing. Then, it has to find feasible and reliable measures of key variables, and design adequate controls (Cameron & Price, 2009).

5.4.1.2 Induction: building theory

Inductive research starts with observations and derives theory from them (Cameron & Price, 2009). The purpose here is to develop a feel for what is happening, in order to understand the nature of the problem. The task then is to make sense of the interview data which has been collected by analysing that data. Result of the analysis is the formulation of a theory. Using an inductive approach, theory follows data, rather than vice versa as with deduction.

Deductive and inductive approaches are widely used. The major differences between them were outlined by Saunders et al. (2009).

Deduction: Saunders et al. (2009).

- emphasizes scientific ideologies;
- move from theory to data;
- stresses the need to explain causal relationships between variables;
- the researcher is independent from the research; and

- is based on quantitative data.

Induction:

- involves gaining an understanding of the meaning humans attach to events;
- achieves a close understanding of the research context;
- the researcher is part of the research process; and
- is based on qualitative data.

Combining research approaches

Saunders et al. (2009) proposed a number of practical criteria for choosing whether the research should use a deductive or inductive approach. If there is a wealth of literature on the topic, from which the researcher can define a theoretical framework and hypothesis, then the study lends itself more readily to deduction. However, if the research into a new topic is exciting much argument, and there is little existing literature, it may be more suitable to work inductively by generating data, analysing and reflecting upon what theoretical themes the data are suggesting.

As was seen in the literature review, the focus of this research is the financing of SMEs in accordance with the rules of Islamic finance in Kuwait. The aim is to explore SMEs finance in Kuwait, in terms of sources, uses, attitudes and constraints; an aim which is reflected in the research title which addresses the issues previously mentioned. "An exploratory study is a valuable means of finding out what is happening, to seek new insights, to ask questions, and assess phenomena in a new light" (Robson, 2002 in Saunders et al., 2007, p.133).

This research study is better suited to the inductive rather than the deductive approach, and there are several reasons for this. First, the study will assist in building theory, adding new insights, and bridging the gap in research into SMEs finance and Islamic finance. Second, developing an understanding of the perceptions and feelings of SME owners and lending managers in the main banks of Kuwait is in line with constructivism philosophies. And third, this research is not concerned with deducing hypotheses, the practical or theoretical testing of hypotheses, or expressing hypotheses in operational terms (Saunders et al., 2007).

5.4.2 Qualitative and quantitative research

Creswell (2012) suggested that there are three basic types of research approaches, namely: qualitative, quantitative, and the mixed approach. Table 9 depicts the main differences between quantitative and qualitative approaches

Table 9 Differences in emphasis between qualitative and quantitative methods.

Qualitative methods	Quantitative methods
- Emphasis on understanding	- Emphasis on testing and verification.
- Focus on understanding from respondent / information's point of view.	- Focus on facts and/or reasons for social event.
- Interpretation and rational approach.	- Logical and approach.
- Observation and measurement in natural settings.	- Controlled measurement.
- Subjective insider view and closeness to data.	- Objective outsider view distant from data.
- Explorative orientation.	- Hypothetical-deductive; focus on hypothesis testing.
- Process oriented.	- Result oriented.
- Generalization by comparison of properties and contexts of individual organism.	- Particularistic and analytical.
	- Generalization by population membership.

Based on Cook, & Reichardt, (1979).

Qualitative research

Qualitative work often attempts to do one or more of the following: (Carson, Gilmore, Perry & Gronhaug, 2001; Yates, 2005).

- Achieve an in-depth understanding and detailed description of a particular aspect of an individual, a case history, or group's experience.
- Explore how individuals or group members give meaning to and express their understanding of themselves, their experiences and/or their world.
- Identify and describe social events in detail and explore why they are happening, rather than how often.
- Explore the complexity, ambiguity, and specific detailed processes taking place, in

a social context (Yates, 2005).

Quantitative research

Quantitative research can be defined as that which “usually emphasizes quantification in the collection and analysis of data” (Bryman, 2008, p.698). Quantitative research revolves around questions like (how many) or (how much), whereas, qualitative research is concerned with enquiries like how and why (Carson et, al., 2001).

According to Yates (2005), qualitative work often attempts to identify and describe social events in detail and explore why they are happening, rather than how often. The nature of research questions in this study suggests a qualitative approach. The questions are not formulated as ‘how many’ questions nor is the emphasis on testing or verification, rather, the focus is on developing an understanding from respondents. Therefore, using a qualitative methodology will help to explore and identify the main problems and challenges that are present in the research context, as captured in the meanings expressed through respondents’ words.

5.4.3 Case studies

A case study is a description of an actual business situation involving a decision to be made or problem to be solved. It can be a real situation that actually happened just as described or where portions have been disguised for reasons of privacy. A case study is a research methodology commonly used in social science. It is based on an in-depth investigation of a single individual, group, or event. Case studies may be descriptive or explanatory (Kettell, 2010).

When to use a case study approach

The case study is one of several ways of carrying out social science research. Each strategy has advantages and disadvantages depending on three conditions (Ryan et al. 2002; Yin 2003),

- 1- research questions;
- 2- the control an investigator has over actual behavioural events; and

3- the focus on contemporary as opposed to historical phenomena.

Yin (2003) suggested that case studies are the preferred strategy when:

- 1- the focus of the study is to answer 'how' and 'why' questions;
- 2- the researcher cannot manipulate the behaviour of those involved in the study;
- 3- the researcher wants to cover contextual conditions because they believe they are relevant to the phenomenon under study; and
- 4- the boundaries are not clear between the phenomenon and context.

5.4.4 Choice of methodology and justification

In the light of the discussion in the previous section, there are arguments for and against both the quantitative and qualitative types of methodology, but more important to the research process is the framework that is developed to carry out the study and the supportive argument behind the choice of methodology.

In this study, the qualitative methodology is articulated through a case study design. Yin (2003) defines case study research as an empirical inquiry that investigates a contemporary phenomenon within a real life context. The case here is the phenomenon of SME financing as enacted by two organizational forms. Thus, this research utilizes two comparative cases; the cases are formed around the nature of the financing organizations in Kuwait and the interaction of SME owners with these organizations.

In this research, a number of organizations, and SMEs owners that interact with these organizations, constitute a single case. Case studies therefore offer the possibility of understanding the nature of SME finance practice in terms of techniques, procedures and systems that are used and the way in which they are used – highlighting problems and challenges for the financing organizational form and those seeking finance. This then means that case studies can provide descriptions of finance practice and explore the application of new procedures, which will support the making policy recommendations in Kuwait, thus addressing the third question.

The research uses two comparative Kuwaiti SMEs finance cases; both cases can support and finance SMEs. The first case is the conventional Islamic Bank, such as the Kuwait Finance House and Boubyan Bank.

The second is a specialized institution that provides finance to SMEs, such as the Industrial Bank of Kuwait and the Kuwait Small Projects Development Company. The second type of institution is one created by the government to support SME industry in Kuwait.

Both cases have special instruments and different terms and techniques to finance SMEs. The goal is to compare findings across cases.

The reasons for including only these cases in the sample are the following.

- 1- The two cases are the only types of Islamic institution that finance SMEs in Kuwait;
- 2- to compare the two cases and find problems and challenges that face SMEs and banks, to decide which of these cases is more suitable for the Kuwaiti environment;
- 3- to examine whether the second case, which was established by the government to support and finance the SME sector in Kuwait, is useful for the Kuwaiti economy; and
- 4- To explore how Islamic finance institutions can develop further support to meet the needs of SMEs in Kuwait by comparing the two existing cases.

The researcher used qualitative methods for the following reasons:

- 1- The nature of research questions suggests a qualitative approach. They are not formulated as 'how many' questions, nor do they place emphasis on testing and verification. Rather, they focus on obtaining an understanding based on the respondents' replies to research questions: to what extent do Islamic financial institutions meet the needs of SMEs in Kuwait?; what financing challenges do SMEs encounter in Kuwait?; and how can Islamic institutions develop further support for SMEs in Kuwait? These are formulated as 'what' and 'how' questions which helps the researcher to focus on the research subjects.

- 2- The aim of this study was to critically evaluate the main financial problems and challenges facing SMEs in Kuwait. Using a qualitative approach will help to identify the main problems and challenges because qualitative data is based on meanings expressed through words, whereas quantitative data would be based on meanings derived from numbers. In the case of this study, meanings derived from words are more likely to explain the problem than meanings derived from numbers.

This study focuses on how Islamic institutions can develop further support for SMEs in Kuwait. Qualitative data deals with topics in depth and in detail, so this kind of method makes it easier to learn about specific subjects, and then to gather quality data for the research.

Why case study?

This research study uses the case study approach for the following reasons:

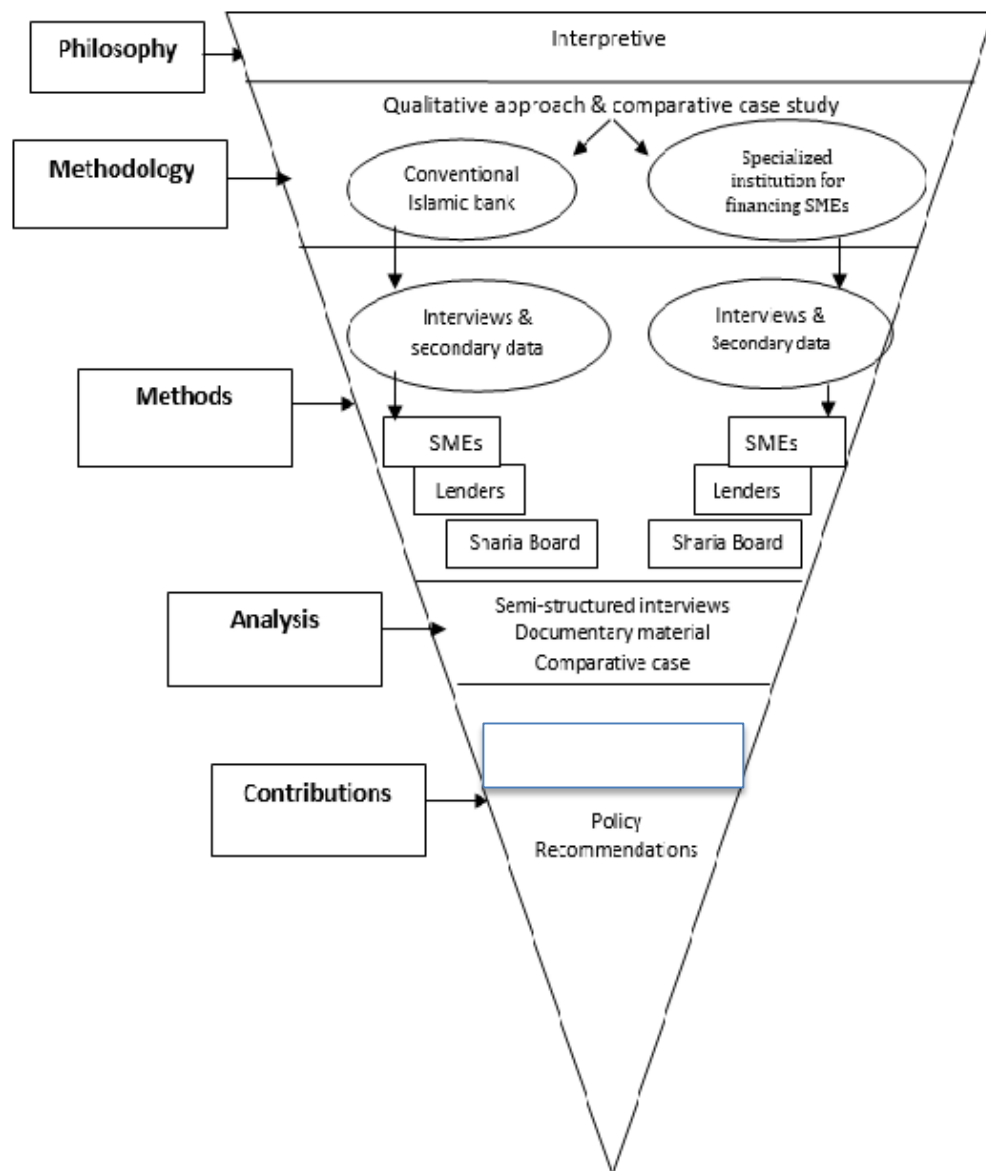
- 1- The study explores how Islamic finance instruments can meet the needs of SMEs in Kuwait. The case study approach allows to gain a detailed understanding of the phenomena involved.
- 2- The study focuses on how Islamic institutions can develop further support for SMEs in Kuwait. Case studies are useful if the focus of a study is to answer 'how' questions.

Why multiple-case studies?

This study focuses on the finance challenges that SMEs encounter in Kuwait, and it looks at two different methods of finance for SMEs. A multiple case study enables the exploration of differences within and between the cases. The goal is to replicate findings across cases. Because comparisons are drawn, it is imperative that cases are chosen carefully so that the study can predict similar results across cases, or predict contrasting results based on a theory (Yin, 2003).

To sum up and make it easy for the reader Figure 9 clarifies the research methodology adopted in the research study.

Figure 9 The research methodologies planned for this study



Source: This figure compiled by the researcher and his supervisors

5.5 Data collection methods

Research methods refer to the techniques and procedures used to collect data and achieve research aim and objectives. The following section outlines the method that was used in this research.

5.5.1 Interviews

The main research tool used in the fieldwork was face-to-face semi-structured interviews. Kvale (1996) suggested that the qualitative research interview seeks to describe and understand the meaning of central themes in the life-world of the subjects. The main task in interviewing is to understand the meaning of what the interviewee says. Semi-structured interviews provide an opportunity to probe an issue further and to extract more detail from the interviewees and allow critical evaluation of the research aim and objectives.

There are many different forms of interview. There are job interviews, media interviews, social work interviews, and then there are research interviews – the interview is a common occurrence in social life. These different kinds of interview share some common features, such as the eliciting of information by the interviewer from the interviewee and the stipulation of rules concerning the varied degrees of formality and conduct of different forms of interview. The aim of the social research interview is to achieve an interaction between the researcher and the respondent or the interviewee (Bryman, 2012).

Advantages and disadvantages of interviews

There are several advantages and disadvantages to using the interview method. These are reviewed below.

Advantages of interviews

- 1- Interviews deal with topics in depth and in detail, so the interview makes it easier for the interviewer to learn about a specific subject, and then to gather quality data for the research.
- 2- The interview creates favourable situations for the interviewer to gain valuable insights based on the depth of the information gathered and the wisdom of 'key informants'.
- 3- Interviews require only simple equipment. Conversational skills, which researchers already have, are the main basis for the interview.

- 4- Interviews are a good method of producing data based on informants' priorities, opinions and ideas.
- 5- Interviews are probably the most flexible approach. The interviewer and interviewee can set a time and location for the meeting to be conducted in a constructive manner (Denscombe, 1998).

Disadvantages of interviews

- 1- Analysis of data can be difficult and time-consuming. Most of the time, the interviewer gathers information from the interviewee which then needs to be converted to data in a transcribed and coded form.
- 2- The data from interviews is based on what people say rather than what they do. This could create variations between the interviewee statement and their actual practice.
- 3- In the case of face-to-face interviews, in front of an audio recorder (or video recorder), the interviewee may sometimes lose his original conversational capabilities. Although the impact of the recording device tends to wear off quite quickly, this is not always the case. The interview is an artificial situation where people are speaking for the record and on the record, and this can be daunting for some people.
- 4- The interviewer may face difficulties with face-to-face interviews because the costs of the interviewer's time and travel can be relatively high, particularly if the informants are geographically dispersed (Denscombe, 1998).

5.5.2 Types of interviews

According to Saunders et al., (2009) there are three types of interviews: unstructured interviews, structured interviews and semi-structured interviews.

5.5.2.1 Unstructured interviews

This kind of interview is used when exploring a general area in depth, where the respondent is given practically full liberty to discuss reactions, opinions and

behaviourin related to a particular issue. The interviewer is there simply to ask leading questions and to record the responses in order later to understand the answers to 'how' and 'why' questions (Carson, et, al, 2001).

5.5.2.2 Structured interviews

Where a standard form of interview is used with an emphasis on fixed response categories and systematic sampling and loading techniques joined with quantitative measures and statistical methods (Carson, et, al, 2001).

5.5.2.3 Semi-structured interviews

The semi-structured interview has a list of themes and questions to be covered, but the order can be modified based upon the interviewer's perception of what seems most appropriate. Question wording can be changed and clarifications are given; particular questions which seem inappropriate with a particular interviewee can be omitted, or additional questions added to other interviews (Robson, 2002).

This research was designed to deal with owner-managers of SMEs, managers of lending organizations, and members of *Sharia* boards at the lending organizations. The aim was to collect their opinions and conceptions regarding the finance of SMEs in Kuwait within the rules of Islamic finance. Semi-structured interviews were adopted to collect the data for the following reasons:

- 1- Semi-structured interviews give the researcher the opportunity to probe a subject in greater depth to extract more details from the interviewee.
- 2- Semi-structured interviews allow the perceptions of various groups to be examined in detail. This helps to gather the ideas of different people with regard to SMEs in Kuwait.

Interview questions

Interview questions were based on the literature review (see Table 10) and pilot study and on previous research in the same field; some were added during the interviews.

Table 10 List of literature review that use to create some of the interview questions

	title	author name	Place of the study	Publisher	Year of publication
1	Factors for success in SMEs: A perspective from Tangier	Sefiani Yassine	Tangier	University of Gloucestershire	2013
2	The financing and success factors of small business in Kuwait.	Alhajeri Abdullah	Kuwait	University of Portsmouth.	2012
3	An exploration of influences on the growth of small firms in Libya	Hajjaji Iman	Libya	University of Gloucestershire	2012
4	Financing of small business in the Libyan economy environment	Eltaweel Mukhtar	Libya	University of Gloucestershire	2011
5	The feasibility of using profit and loss sharing for financing small and medium sized enterprises in Saudi Arabia	Binzomah Mohammed	Saudi Arabia	University of Gloucestershire	2008
6	The financing problem of small and medium-sized manufacturing enterprises in Jordan	Ajlouni Heba	Jordan	Durham University	2006
7	Financing of small and medium sized enterprises in Nigeria	Dobo Danjuma	Nigeria	Loughborough University	2006
8	Determinants of the Demand for Microenterprise finance in Urban Egypt	Nasr Mohamed	Egypt	University of Durham	2002

In addition to this, the researcher has seven years' experience of working in the Islamic banking sector in Kuwait. He works as a senior officer in a *sharia* department, and this knowledge and experience has helped to create an effective set of questions for the semi-structured interviews.

An interview guide was developed for the interviews, consisting of a set of questions to be asked. The list of questions was developed after a study of the literature review, and is presented in the appendix; however all interviews began with an introduction, which asked about the educational background and experience of the interviewees.

The order of the interview guide was constructed by considering the research objectives and questions as well as with a view to achieving fluent conversation with the participant.

Interview environment

Interviews were conducted in a location chosen by the subject. This was to provide comfort and a relaxed atmosphere in which to complete the interview process (Egan & Howell, 2001). The duration of each interview was about 45 minutes and conversations were recorded using a digital recorder. Transcripts were made after the interview (please note that the transcript policy as well as the ethical considerations are explained later in this chapter).

The following interview process was derived:

- Interviewees were telephoned beforehand to briefly explain the topic and arrange an appointment for the interview.
- All participants received a letter about the topic and interview questions so that they would feel comfortable in the interview.
- In cases where the interview contact was made using snowball sampling, the interviewer began the interview with an introduction from the referring person. This made it easier to establish trust with the new participant (Polit & Beck, 2004).
- A short introduction about the topic was given to the participants.
- The interviewees were informed that the interview would be recorded using a digital recorder. In addition to that it was explained that they could skip any question or stop the interview at any time. Ethical considerations are discussed in greater detail later in this chapter.

Documentary material

To triangulate the interview data, supporting documents such as reports, memos, conference material and statistical information from the two institutional case forms and from government and non-government statistics about Kuwait (for example, from the Kuwait Central Bank (KCB), the Ministry of Planning, the Ministry of Industry and Trade, and from Kuwait Chamber of Commerce and Industry) were collected.

5.6 Research sampling and data collection

Having discussed the method of data collection for this research, the following paragraphs analyze and explain the sampling and data collection strategies used. It was necessary to sample a range of businesses.

5.6.1 Research sampling

For most research projects, due to time and resource constraints, it was not feasible either to gather or to analyze all of the available data. Sampling techniques provide a range of methods that enable the researcher to reduce the amount of data needed, by considering only data from a sub-group rather than all possible cases or elements (Saunders et al., 2009). There are two essential types of sampling; probability sampling and non-probability sampling.

5.6.1.1 Probability sampling

Probability sampling or representative sampling is used when the number of the population is known and a sample is typically equal for all cases. In this case, it is probable to answer research questions and to achieve the objectives of the study. This type of sampling requires the researcher to approximate statistically the attributes of the population from the sample. It is most commonly associated with a survey and experimental research strategies (Saunders et al., 2009).

5.6.1.2 Non-probability sampling

Non-probability sampling offers a range of other techniques for selecting samples based on the research's judgment. In this type of sampling the probability of each case is usually selected from an unknown population. In order to answer research questions and achieve research objectives, it requires the researcher to make statistical inferences about the attributes of the population (Saunders et al., 2009).

Sarandakos (2005) defined the characteristics of qualitative sampling as follows:

- qualitative samples are comparatively small;

- qualitative sampling is often dependent on saturation and in most situations uses no statistics; and
- the size of a qualitative sample is not statistically determined.

The snowball technique was used during the interview process. Snowball sampling is usually used when it is problematic to identify members of the chosen population (Saunders et al., 2009).

Remenyi et al., (1998, p.194) described a snowball sample as “one where the researcher uses an informant to help him or her find the next informant”. In this study, data was collected from a small group of the target population or asks individuals to provide the information needed to locate other members of that population. Each located subject suggest other subjects.

In the present research, it was difficult to locate the SME owner-managers, and it was needed to interview twelve of them, divided across three categories of SMEs: those who were self-financed; those who sought finance from Islamic banks, and those which sought finance from special institutions that finance SMEs. However, the researcher had a good relationship with the *Sharia* boards and the bank managers because he had seven years' work experience in the Islamic banking sector, so it was easy to access and interview the Sharia board members and bank managers. Snowball sampling was used to find the SME owner-managers.

To obtain these references, the interviewer asked at the end of each meeting: “Do you know anyone who owns or manages an SME who might want to discuss his/her experience of obtaining Islamic finance for an SME in Kuwait, and might be interested in meeting me?”

5.6.2 Sample selection

The semi-structured interviews were undertaken in Kuwait with twenty participants. The sample size was based on those used in past related studies carried out in this area (Ajlouni, 2006; Al-Kharusi, 2003) and sought to achieve data saturation. It included twelve SME owner-managers,

- Four of whom had obtained a loan from the first case (Islamic bank),(CIB),
- Four of whom had obtained a loan from the second case – a Specialized Institution Financing SMEs (SIFS),
- Four SME owner-managers who were Self-Financing (SF).

It was hoped that the SME owners who had taken loans would help to explore the challenges that such SMEs face and those who were self-financing would explain the reasons why they had not chosen to use financial institutions.

In addition, four managers from the financial institutions (two from each case) were interviewed.

These participants, it was hoped, would help to address part of the first research question (problems that face financial institutions) and to answer the second question (how do Islamic financial institutions meet the needs of SMEs in Kuwait?).

The reason for choosing interviewees from the Kuwait Finance House and Boubyan Bank as a sample for the first case was because these were the first two, and are the largest, Islamic Banks in Kuwait. The reason for choosing the IBC and the KSPDC interviewees as a sample for the second case was because these are the only institution which specifically finances SMEs in Kuwait.

A further four individuals, who were members of the *Sharia* boards of the financial institutions, and who had experience with SMEs, were also interviewed.

Since the *Sharia* boards 'moderate' the activity of the institutions, their experience and insight was expected to help the researcher to address the third question and to make policy recommendations.

The interviews were undertaken in October and November 2013. Overall, twenty interviews were undertaken that resulted in about 900 minutes interview time in total, 400 pages of transcripts.

5.6.3 The pilot study

Having discussed the sampling strategy in the previous section, the following section examines the pilot study and the method used to collect data; namely the interview.

The pilot interviews were designed to test the interview structure, the question design and any difficulties or misunderstandings relating to the interviews. Sarantakos (2005) recommended that the pilot study is considered as a rehearsal for the main study. Blessing and Chakrabarti (2009) said that “the aim of a pilot study is to try out the research approach to identify potential problems that may affect the quality and validity of the results.”

In order to identify whether there was any potential for confusion or misunderstanding in the questions, and prior to their translation from the English language into Arabic, the questions were distributed to several Arabic and English native speakers.

When it was finally felt that the meaning of all questions had the same sense in both languages, the researcher tested the questions with a number of PhD students who could understand both languages and had experience in this area of research.

The interview procedure was piloted on several persons before starting the interview process. The main pilot interviews were conducted in October 2013 and involved four participants.

- 1- The researcher had meetings and interviews with academic staff at Kuwaiti universities.
- 2- The researcher interviewed one SME owner-manager.
- 3- The researcher interviewed one manager from the bank.
- 4- The researcher interviewed one *Sharia* board member.

Daniel and Sam (2010) suggested some advantages of pilot studies:

- 1- A pilot study will permit a preliminary testing of the hypotheses and lead to testing of more precise hypotheses in the main study. It may lead to changes in some hypotheses, dropping some, and bringing in new ones.
- 2- It often provides the research worker with ideas, approaches, and clues, not foreseen prior to the pilot study.
- 3- It greatly reduces the number of treatment errors, because unforeseen problems revealed in the pilot study may be overcome in redesigning the main body.

- 4- It may save the research worker a major expenditure of time and money on a research project that will yield nothing. The pilot study usually provides enough data for the research worker to make a sound decision on the advisability of going ahead with the main study.
- 5- In the pilot study, the researcher may try out a number of alternative measures, and then select those that produce the best result for the main study.

In other words, the reasons for conducting this pilot study were as follows:

- 1- To check the clarity of the questionnaire items and to ensure that they were understood by the respondents.
- 2- To determine the length of time needed to complete the interviews.
- 3- To measure the reliability of the questions in the interview.
- 4- To identify whether any confusion or misunderstanding was introduced by the questions due to the translation from English to Arabic.

To check the validity of the translation for the interview questions the researcher follow the following step:

- 1-the researcher writes the questions in English languages.
- 2-then the questions were distributed the questions to several Arabic and English native speakers.
- 3-then the researcher translated the questions to Arabic languages.
- 4-then the researcher translated the Arabic to English again to check the validity of the translation.

5.7 Data analysis

During the fieldwork there was considerable writing of notes and reports to provide feedback to the research participants. Final write-up involved the production of a detailed case analysis and interpretation, and the construction of the case study from a mountain of data, field notes, reports, and so on, which had been collected during the fieldwork (Ryan et al., 2002).

Each interview was recorded (where agreed by the participant) using a tape recorder. Interviews were conducted in Arabic and full Arabic transcripts were made of each interview. In order to preserve the meaning of the interviewees' words, particularly given the nature of the topic (Islamic finance), data analysis was undertaken from the Arabic transcripts. Initial identification, coding and categorization that consisted of searching and identifying repeated themes and patterns through reading of the interview transcripts, was used to carry out the analysis of qualitative data. An open coding approach (Flick, 2009), whereby the initial coding is drawn from the data, was used. The documentary material was used to augment and provide a counterpoint to issues that are derived from the interviews.

After selecting the case study and arranging access, the researcher should adopt the following procedure.

Preparation

Preparation is the first and principal step. The researcher should start with the research question in order to specify as clearly as possible the issues which need to be addressed. Reviewing the literature to form the research question will lead to the shaping of the research design, including the research methods and even the methodology (Ryan et al., 2002).

Collecting the evidence

A preparatory review of theory will give an early indication of the kinds of data that should be looked for in the case study. There are several methods of collecting data and these could involve the following:

- 1- Physical artifacts.
- 2- Questionnaires.
- 3- Interviews.
- 4- Observing actions and meetings.
- 5- Documentation.

All evidence collected by the researcher should be recorded for analysis (Ryan et al., 2002).

The main method of collecting data in this research was the semi-structured interview, for which preparation is the key to success. Saunders et al. (2009) suggested the following points for conducting successful interviews.

- The interviewer should consider what will be the main focus of the in-depth interview, and what the topics he wishes to explore are.
- The interviewer should think about the information that he will send to the interviewees before the interview.

Recording interviews

Saunders et al. (2009) suggested some advantages and disadvantages of audio recording:

Advantages of audio recording Saunders et al. (2009)

- It will help the interviewer to focus on questioning and listening.
- The interviewer can listen again to the interview later.
- It will help the interviewer to collect correct and unbiased recorded data.
- It allows the researcher to use direct quotes.
- The data is permanent and may be used by other researchers.

Disadvantages of audio recording Saunders et al. (2009)

- The interviewee may sometimes lose his original conversational capabilities, thus reducing the reliability of the data.
- There is the possibility of encountering technical problems.
- Transcription of the audio recording can be time-consuming.

Transcript policy

As mentioned earlier in this chapter, the researcher made transcripts of all of the interviews

In this study, data collection and analysis were all conducted by the researcher. The data gathered were preserved in textual form, as digital recordings, and in the form of documents. In addition, some notes were taken during the interviews.

Translated quotations, taken from the interview transcriptions, were used to support the findings. The following procedure was adopted in order to ensure the validity of the translations:

1-the researcher produced verbatim transcriptions of all of the recorded interviews in the Arabic language.

2- He then used various quotations to support the findings.

3-the researcher translated the quotations from Arabic to English.

4-then gave the original Arabic to a professional translator to double check the validity of the translation.

5.7.1 Data analysis process

The qualitative data analysis in this study can be described as follows:

- a) All interviews were audio-recorded digitally in order that transcriptions could be made. Afterwards, interview notes were written up by the researcher, based on verbatim notes taken in the interviews.
- b) Verbatim transcriptions of the whole of the recorded interviews were made in Arabic.
- c) Repeated cycles of reading and review of the transcribed data (in Arabic), collected during the in-depth interviews, were undertaken.
- d) In order to produce a rich understanding of the data the identification of themes was undertaken in Arabic. The themes were afterwards translated into English.
- e) Patterns and relationship were identified after studying all of the interview transcripts. In this step the researcher evaluated and examined the relationships between these patterns and categories and the question being explored.
- f) The next step was the identification of links between different data contexts. Many differences, common patterns, and anomalies that were present in the data were identified.
- g) The researcher interpreted the meanings of the data and the implications for the research question being explored.
- h) The conclusions generated are presented in the final chapter of this research.

5.8 Validity and reliability

Seidman (1991, p.16) raised a number of questions that related to validity and reliability issues as follows:

“How do we know that what the participant is telling us is true? And if it is true for this participant, is it true for anyone else? And if another person were doing the interview, would we get a different meaning? Or if we were to do the interview at a different time of year, would the participant reconstruct his or her experience differently? Or if we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of this issue at hand?”

In terms of this research the validity and reliability were demonstrated as follows:

Descriptive validity was established thorough recording of interviews, and by writing them up verbatim; clarity of meaning was confirmed by checking responses with the interviewee.

The researcher conducted the interviews with different groups of participants; owner-managers of SMEs, bank managers, and *Sharia* board members in many institutions in Kuwait. Therefore, the validity of the data gathered can be tested by comparing the answers provided by the participants.

5.9 Ethical considerations

This research complies with the University Handbook of Research Ethics and uses the Market Research Society (MRS) guidance for conducting research interviews. An interviewer identity card was used at each interview. To ensure freely informed consent, interviewees were informed of the purpose of the research, the approach to confidentiality and anonymity, and their right to withdraw at any time and to refuse to answer any question. Interviewees were provided with transcripts for approval and all data was stored securely.

The research obtained a letter of approval and support from the University of Gloucestershire for carrying out this study in Kuwait. Another letter was prepared by the researcher which explained the reason for the interview.

5.10 Summary

This chapter provides a discussion about the philosophy of the research, and the research methodologies adopted during the fieldwork. It describes the use of semi-structured interviews as the main instruments for collecting data in the field. Moreover, it reviews the sample. In addition, the chapter discusses the main reasons for choosing this research method, and the advantages and disadvantages of semi-structured interviews. It also highlights the data analysis tools and ethical considerations.

Chapter 6 Results and analysis of the SME owner-managers' perceptions

6.1 Introduction

This chapter analyses the interview responses of twelve SME owner-managers. The research divides SMEs into three categories: those which are self-financing, those financed by normal commercial Islamic banks, and those financed by specialists who deal with Kuwaiti SMEs. Twelve semi-structured interviews were conducted with SME owner-managers in order to reveal their opinions and perceptions of various matters related to SME finance. This chapter discusses the findings.

It was realised that there were areas of both agreement and disagreement between SME owner-managers. However, generally speaking, nearly all SME owner-managers in Kuwait have the same attitude and vision with regard to SMEs. The open-ended questions of each interview were concerned with the same four main categories. Each category covers a variety of related questions.

The researcher is aware of the fact that it is important to link the existing literature and the new information derived from the primary data to identify the distinguishing features between the two. Primary data quotations are referenced and indented.

The four main issues that were investigated in the interviews were related to the following:

- 1 - Demographic and introductory questions.
- 2 - Factors that affect SMEs in Kuwait.
- 3 - Kuwaiti Islamic finance Institutions.
- 4 - Islamic finance further support for SMEs

6.2 Introductory demographic questions

The following table (11) shows gender, age, experience, education and other information gathered from these questions.

Table 11 Gender, age, experience, education and other information

Case type	Respondent	Qualification	Experience in years	Project capital	Number of workers	Ownership Structure	Age of business	Sources of finance	Commitment
Self Financing	OM1	PhD	6-10	20-1,000	11-50	Sole proprietor	6-10	Self	Part time
	OM2	University first degree	> 15	Less than 20,000	17	Non family partnership	0-5	Self-finance	Full time
	OM3	University first degree	6	17,000	7	Non family partnership	0-5	Self-finance	Part time
	OM4	Masters	4	15,000	2	Non family partnership	4	Self Friends	Part time
Normal Islamic banks	OM5	University first degree	6-10	90,000	3	Non family partnership	9	Self-finance and Banks	Part time
	OM6	University first degree		130,000	11-50		5	<i>qard hassan</i>	Full time
	OM7	University first degree	8	50,000	11-50	Family partnership	2	Self Banks	Full time
	OM8	University first degree		500,000				Friends Banks	Full time
Specialist financing for SMEs	OM9	University first degree	> 15	280,000	< 10	Non family partnership	2	Self-finance and government	Full time
	OM10	University first degree		120,000	72	Non family partnership	3	Self Banks	Part time
	OM11	University first degree	18	200,000	42	Sole proprietor	9	Self and	Full time
	OM12	University first degree	3	250,000	11	Non family partnership	1	Self and Government banks	Full time

6.3 Factors affecting SMEs in Kuwait

This mainly concerns the first question of this study which was: What financing problems and challenges do SMEs encounter in Kuwait? SME owner-managers were asked about the factors that affect SMEs in Kuwait when they decide to start a

business and when they wish to take finance from financial institutions. The main target of these questions was to investigate SME owner-managers' attitudes and perceptions, particularly toward the finance of SMEs. Questions about the lack of an official definition for SMEs, and the importance of collateral, the importance of a business plan, and of audited statements, were asked, amongst others. The first questions posed were:

Some experts in the field of SMEs suggest that there is no official definition for SMEs in Kuwait. What would you say about the lack of an official definition for SMEs in Kuwait? How would you define an SME?

The majority of the respondents believe that it is a problem that there is no official definition for SMEs in Kuwait (see Table 12). The fundamental importance of an official definition was explained by an SME owner-manager who said:

“Actually, this topic constitutes a problem because the business environment in Kuwait has no transparency or any kind of available information.” OM6

On the other hand, two of them believed that not having an official definition was not a problem (see Table 12). The respondents suggested that each organization could have its own definition.

Table 12 SME owner-managers' opinions about the lack of an official definition for SMEs in Kuwait

Answer options	Response count
Believe that it is a problem that there is no official definition for SMEs in Kuwait.	8
Believe that it is not a problem that there is no official definition for SMEs in Kuwait.	2

The above results draw our attention to the fact that in Kuwait there is no official definition of an SME. One of the SME owner-managers went further and explained why there are always problems with defining SMEs. The respondent said:

“Of course, in the early stages drawing up a definition will be a problem for any country because, after the definition, any SMEs will get benefits from the government.” OM1

With regard to the question about how the respondents would define SMEs in Kuwait, the respondent suggested many standards that could be used. Four of the SME owner-managers suggested that capital value is a suitable definition (see Table 13). One of them stated:

“From my own point of view, the suitable definition of SMEs in Kuwait is, those shops or companies with capital of less than KD 50,000, and which engage in selling products or rendering services. The medium-sized enterprises (MEs) are those whose capital is between about KD 50,000 and KD 500,000. The large-sized enterprises are defined as those whose capital exceeds KD 500,000. This definition, in my opinion, is suitable for the Kuwaiti Market.” OM6

Another participant indicated that the definition based on capital and return on investment is the best for the SME sector in Kuwait (see Table 13).

“I think that SMEs are defined based on capital and return on investment (ROI). At the present time, I believe that in Kuwait a project with capital less than KD 400,000 is considered as a small project and this definition is consistent with the State’s economy and ROI; for example how much is the return from KD 400,000, as there is a difference when the project achieves returns of a million and when it achieves a return of one or two thousands. Accordingly, SMEs should be defined based on these two standards.” OM11

On the other hand, one of the interviewees indicated that the best definition for Kuwait is that based on capital and number of employees (see Table 13).

Three other interviewees indicated that SMEs are defined along qualitative rather than quantitative lines (see Table 13). The respondent suggested that SMEs are enterprises managed by their owners; this means that the owner and the manager are the same person.

Table 13 Summary of how SME owner-managers define SMEs

Answer options	Response count
Definition based on capital value.	4
Definition based on capital and return on investment.	1
Definition based on capital and number of employees.	1
Qualitative definition.	3

From the above qualitative data, it is clear that there is no agreement between the SME owner-managers with regard to defining SMEs. This result supports the claim in Chapter

2 by Ayyagari et al. (2005), who found that there is no single agreed definition of SMEs. Various definitions and measures have been adapted from country to country, and in many cases there is a multiplicity of definitions within the same country because they are spread over different sectors.

During the discussion with respondents, one of SME owner-managers explained that the definition based on the number of workers is not appropriate for SMEs in Kuwait. He stated:

“In Kuwait, there is an entity to finance SMEs, so it defined SE with a good definition and the used standard is a good one, because it used the capital considering that Kuwait’s economy is not diverse as America which uses capital with the standard of workers, because America has a population of 300 million, so when SMEs is defined as per the number of workers in America, it will be a suitable definition for a country like America, but this definition is not fit to Kuwait, because in Kuwait there is no significant number of employment in order to define the SMEs as per the number of employment, and note that if we defined SMEs in Kuwait as the project that contains 25 workers and if we said that there are 30,000 licenses in Kuwait and each of which includes 25 workers, it means that they all contain the labour force in Kuwait in SMEs, so it is difficult to be defined according to the number of employees as is the case in America.” OM1

These findings support claims by Curran and Blackburn (2001), who argued that the definition based on the number of employees is open to criticism and has to be set against some serious disadvantages.

In further discussion with participants, one of SME owner-managers explained that the definition based on the capital standard is not the right definition for SMEs in Kuwait. He stated:

“I don't think that the capital standard is suitable for the definition of SMEs, because most large companies today, like Al Kharafi companies, have capital of KD 50,000, so capital doesn't represent the true size of the company.” OM7

In summary, there appears to be some evidence that in Kuwait there is no agreed official definition. Although some SME owner-managers suggested that some institutions in Kuwait have their own definition, still this is not the State’s official definition.

Respondents were next asked about the importance of SMEs in the development of Kuwait's economy:

In your opinion, how important are SMEs to the development of the Kuwaiti economy?

SME owner-managers were unanimous in their opinion that SMEs are extremely important to the Kuwaiti economy. One of them stated:

"I am confident that the future of Kuwait and the GCC as a whole in terms of economics is limited to the extent of their interest or growth of SMEs therein,."

OM1

During the discussion with SME owner-managers, some of them summarised why SMEs are important for Kuwait's economy. Four of the respondents suggested that SMEs provide job opportunities and should be considered the main key to unemployment (see Table 14). One of them said:

"Surely, SMEs play an important role in any economy, since they provide job opportunities, decrease the unemployment and keep the country's youth or manpower active and busy. Therefore, these SEs may have opportunity to grow and become MEs, then become large enterprises." OM6

In further discussion with the participants, two of them pointed out that SMEs are a main source of innovation (see Table 14). One of the respondents stated:

"In fact, SMEs are considered as one of the main sources for the economy and create a lot of real job opportunities. They are also a fertile field for creativity because SMEs have a very suitable environment for new experiments and ideas and launching creative projects. These ideas and innovations do not often have an opportunity in existing and large companies where innovation is very limited. However, the SMEs are a fertile environment for innovation, creativity, invention and creating job opportunities." OM9

Furthermore, two of the respondents pointed out that SMEs are important because they help to keep money inside the country (see Table 14). One of them said:

"Of course, SMEs are very important because they keep money inside Kuwait. Today, most of those who want to buy from SMEs are Kuwaitis who live in Kuwait, or non-Kuwaitis and create job opportunities for the Kuwaitis and expatriates. SMEs help in spending funds inside Kuwait and decrease funds spent abroad. Thus, SMEs encourage the Kuwaiti economy." OM10

Another interviewee further highlighted that SMEs help to reduce imports from abroad (see Table 14). The respondent stated:

“Of course it’s very important because the existing small and medium sized factories contribute currently to reducing imports from abroad.” OM2

A different two SME owner-managers believed that SMEs would help to reduce work in the government sector (see Table 14). The respondent said:

“SMEs may be the backbone in the future as they are a very vital activity, where these small activities are contributing in creating new job opportunities in the future, especially in the present economic situation as its difficult for the government to accommodate and recruit all the graduates, as well as large companies where some of them are down in the dumps in the wake of the economic crises, where they cannot accommodate all the jobs. Therefore SEs are very important for the economy and to the citizen himself”. OM5

On the other hand, five of the SME owner-managers claimed that SMEs add value to GDP (see Table 13). Furthermore, one of the respondents believed that SMEs help to increase capital income for people.

Table 14 SME owner-manager summary of the importance of SMEs

Answer options	Response count
Believe that SMEs add value to GDP.	5
Believe that SMEs are sources of job creation.	4
Believe that SMEs are a main source of innovation.	2
Believe that SMEs help to encourage the spending of money inside the country.	2
Believe that SMEs will help to reduce work in the government sector.	2
Believe that SMEs reduce imports from abroad.	1
Believe that SMEs help to increase capital income for people.	1

This finding concerning the role and importance of SMEs in Kuwait supports the claim by Harvie and Lee (2002) and by Beaver and Prince (2004) who find that the contribution of small and medium enterprises can be seen from different points of view that relate mainly to the important role played by SMEs in relation to job creation, innovation, export, and private-sector production, in developed countries, as well as in developing and emerging economies.

The respondents were asked about the changes that could be made to banking credit policy to support SMEs. The following question was asked.

In your opinion, what are the things that could be changed in banking credit policy to aid the development of Kuwait’s SME sector?

Two of the SME owner-managers suggested that the new law for SMEs would be helpful for the SME sector (see Table 15). One of the respondents stated:

“The new law for SMEs is good and I have worked with the financial committee which has divided the law into three core parts after the perusal of global experiences, one of which is represented in finding three core parts for any law which serves SMEs in developing countries such as Kuwait. There are articles which tackle a phase called the pre-incubation phase and incubation phase where the entrepreneur is being incubated and then he successfully passes the incubation phase.” OM1

Two of the respondents suggested that the Islamic banks in Kuwait should finance start-up SMEs (see Table 15).

One of the respondents believed that the Islamic banks should establish departments specializing in the financing of SMEs (see Table 15). One of them believed that the Islamic banks should accept any type of collateral (see Table 15).

Table 15 SME owner-managers’ opinions on things that could change in banking credit policy to aid the development of Kuwait’s SME sector

Answer options	Response count
Believe that the new law for SMEs in Kuwait would be helpful in aiding the development of the SME sector.	2
The Islamic banks in Kuwait should finance start-up SMEs.	2
Believe that the Islamic banks should establish departments which specialize in finance for SMEs.	1
Believe that the Islamic banks should accept any type of collateral.	1

In summary, it can be concluded that the SME owner-managers believed that to improve the Kuwaiti SME sector there are many things that need to be changed in banking credit policy, such as implementing the new SME law. Islamic banks in Kuwait should finance start-up SMEs, they should establish departments for SMEs, and they should accept any kind of collateral.

The SME owner-managers were next asked about the obstacles that SMEs face when they obtain finance, and whether they had a solution to offer. The following question was asked:

Research shows that one of the obstacles facing SMEs in Kuwait is access to funding. What do you suggest in order to tackle this problem within the permissibility of Islamic financial law?

The majority of participants referred to the lack of finance and agreed that access to finance in Kuwait was an obstacle (see Table 16).

Another SME owner-manager who expounded on his experience when he visited the banks to ask for finance further explained the issue of the lack of finance for SMEs in Kuwait.

“Actually, through my previous experience, I visited the Industrial Bank and a small-sized company to get finance, but I couldn’t get it because the systems adopted in approving finance are very strict and, from the first meeting, you feel that these institutions have no desire to provide finance. They request a study is conducted for the project and this study may involve great effort and take a long time; maybe up to three months. After conducting the study, you do not know whether these institutions will agree with granting the finance or not. From my own point of view, these institutions are not serious about providing finance. In addition, these institutions do not finance all SMEs. In some cases, there is selectivity in choosing.” OM6

On the other hand, only one of the respondents believed that access to finance in Kuwait was free from obstacles (see Table 16). The respondent stated:

“I think that getting finance is not difficult but it is very easy. And the proof of that; if I came to you personally and requested an amount of KD 50,000 from you and provided you with all guarantees that this project will achieve a net profit every month, and I told you that, Khaled, I’ve a project and provided you with a study about it and told you that this project can realize a monthly net profit of KD 5,000 for you, surely you would contribute and would obtain this amount, either from your parents, or your brothers, or your friends or getting a loan from banks.” OM11

The above respondent claims that there is no obstacle to obtaining access to finance from family and friends, and this point of view agrees with those of Logenecker et al. (2008) and Burk and Lehmann (2004). The view is that personal savings, and friends and family, are the most common sources of early finance.

Table 16 SME owner-managers’ opinions on access to finance for SMEs

Answer options	Response count
Access to finance is an obstacle.	11
Access to finance is not an obstacle.	1

From the above qualitative data, it is clear that access to finance is an obstacle for SMEs in Kuwait. This result supports the claim in the literature review by Bhaird and Lucey (2009) who noted that SMEs in the early stages have more difficulty in obtaining finance. This point of view is also supported by Back et, al (2006) who pointed out that access to finance is recognized to be a persistent obstacle to SME survival and growth.

In further discussion with the participants, they were asked whether they had a solution to the problem posed by the obstacles to finance, which would be permissible under Islamic financial law.

One of the respondents suggested that the government should change the condition that applicants must be free of work before they can obtain finance from specialised Islamic institutions to finance SMEs

“The specialised Islamic institutions to finance SMEs condition to be free of work. Today, not all people have the ability to bear the risks of leaving guaranteed work for unknown and unguaranteed work to establish a project when they don’t know whether the project will succeed or fail. Marital status and age have a great effect on leaving work and being unemployed when applying for finance from governmental authorities. The financiers, on the other hand, don’t carry out any initiatives to study the project with the initiator and direct him to successful alternatives. Thus, the financiers have to provide the technical and material support to the project owner.” OM10

The above quotes draw our attention to an important issue for those wanting to obtain finance from the specialised Islamic institutions to finance SMEs. All specialised Islamic institutions have a condition that the applicant must be out of work and available to work full time, this condition was mentioned in the literature review.

Generally, loans from banks remain the primary source of finance for SMEs. However banks and financing institutions require collateral as a condition to finance for SMEs (BIS, 2012). Respondents were next asked about the principle of requiring collateral

and if they could suggest any reasonable alternatives, particularly when dealing with SMEs. The following questions were asked:

Most banks in Kuwait require collateral. What do you think of the principle of requiring security collateral? Are there other alternatives you would suggest?

There was strong agreement among SME owner-managers that collateral is important for banks when they finance SMEs. One of the SME owner-managers suggested a reason why the banks ask for such collateral, and that had to do with the personality of young Kuwaiti people. The respondent stated:

“In my opinion, when the bank requests collateral from the customer, it means that the bank does not trust that customer, and it’s actually the right of the bank because it wants to ensure its rights, and that the customer has the ability to repay. The reason that banks do not trust the owners of SEs stems from the culture of the community; that many young people are making decisions in a hurry, as you find that the young man takes a decision to establish a small project within a few days without studying the matter. Therefore, banks are stern on the subject of guarantees.” OM11

Another two SME owner-managers argued this point further, explaining that there is a ruling from a central bank that forces banks to take collateral when they finance SMEs:

“As for the banks, they are considered as commercial companies seeking to achieve a return for the depositors and investors, since the depositor seeks to get a return. As the bank manages the funds of third parties, the State, represented by the Central Bank, has organized the process of paying the funds as loans or granting the loans. The loan may not be paid without a guarantee, because it is money for a third party and it is not authorized to trade in the money of the third party without law. The law exists, thus the bank is not authorized to grant any finance without a guarantee, as the bank is not a charitable authority. Even the Islamic banks can’t grant finance without guarantees in line with the banking business law of the Central Bank.” OM1

With regard to the importance of collateral and whether there are other alternatives, some respondents did suggest alternatives. One person suggested that banks could use low risk instruments to finance SMEs (see Table 17), as follows:

“In the beginning, it is in the interests of the bank to take guarantees. However, there are alternatives to the guarantees required by the banks. For example, these banks may have financing portfolios that finance SMEs in a way with less risk. For example, the bank doesn’t fund with huge amounts and the finance is in the same way that is followed by the Kuwaiti Industrial bank, since the bank finances the assets only because they are valuable for the bank and it can take these assets if the client is not able to repay.” OM10

One of the respondents suggested that Islamic banking should use the Musharaka contract as an alternative to collateral (see Table 17). Another respondent believed that the Islamic banks should have social responsibility towards society so they should adopt groups of SMEs (see Table 17). The respondent stated:

“In my opinion, the issue is mainly an investment process between the bank and the project owner. As you know, capital is a coward and it is dangerous to confide in anyone only through the C.V. or through the enterprise plan. The Islamic banks have to avoid discrimination and mediation in the process of providing finances, regardless of efficiency and experience. In my view, the Islamic banks bear social responsibility and I suppose that Islamic banks should adopt a group of specialists who have commercial desires or professional talents and provide them with guidelines and training through specific courses. Through this process, banks will know the good projects that can achieve success in the future which the bank may finance or be a partner therein.” OM6

Table 17 Summary of alternatives to collateral

Answer options	Response count
The banks can use low risk instruments to finance SMEs.	1
<i>Musharaka</i> contracts (joint company).	1
Islamic banks should adopt groups of SMEs and train and finance them.	1

In summary, the law obliges banks to take collateral when giving loans to SMEs. However, because Islamic finance should have social responsibility towards society, some valuable suggestions for alternatives to collateral were made, including the following: banks could use low risk instruments to finance SMEs; using *musharaka* contracts; and the government becoming involved in financing SMEs.

In order to obtain a bank loan for a new business the owner may need to submit a business plan (Burk & Lehmann, 2004). The respondents were asked about the importance of a business plan as a prerequisite for obtaining finance and what banks expect to see in such a plan. The following questions were asked:

Some financial institutions and banks require a business plan for obtaining finance. In your opinion, how important is a business plan as a prerequisite for obtaining finance? What do you think should be included in a business plan?

All of the respondents agreed that a business plan is important not only for obtaining finance, but for the owner-manager himself. One of them stated:

“An action plan is necessary because it helps the entrepreneur to arrange project ideas and also helps him to ease the marketing of the project, especially if the entrepreneur is seeking finance, whether from banks or even from relatives and friends.” OM11

Two of the SME owner-managers pointed out that a business plan is a key element for banks. However, they did also display some negativity with regard to business plans:

“The plan is considered as a key element, as you know the efficiency of the individual who provides this plan, but there are many commercial offices which provide feasibility studies, and in this case, there may be fraud against the bank. Thus, the bank should ensure that the study is provided by the owner of the enterprise. Therefore, there should be a mechanism in the bank to make sure of the ability and efficiency of the study’s provider, since the bank must conduct an interview with the owner of the study.” OM6

Continuing the discussion with SME owner-managers, they were asked what should be in a business plan.

Three of the respondents agreed that the business plan should contain the capital of the project. Three of them agreed that the number of workers should appear in the plan. Five of them agreed that it should include expected returns (see Table 18). One of them said:

“I think the most prominent matters that should be included in all the studies are the main elements, such as the capital, the expected returns and the required manpower. However, I think that the Islamic banks have to consider the targeted social value which will be provided by the enterprise to society, not only the commercial value. Thus, the Islamic banks should consider the developmental, social and moral value so as to be distinctive from the traditional banks.” OM6

On the other hand, some SMEs suggested that they include in the business plan the source of finance, marketing methods, and the sources of raw materials (see Table 18). Others said that they included general information about the projects; the expected risks and the reason for obtaining finance (see Table 18).

Table 18 Summary of what SME owner-managers would expect to provide in a business plan

Answer options	Response count
Expected future returns.	5
General information about the project.	5
The capital of the project.	3
The number of workers.	3
Marketing methods.	3
Source of finance.	2
Expected risks.	2
Sources of raw materials.	1

During the discussion with the respondents, one of them suggested that many SME owner-managers, especially those who are new to this field, have less experience in preparing a worthy business plan.

In the light of the above analysis, it can be concluded that the business plan is important for obtaining finance from banks and also important for the SME owner-manager himself because it helps the entrepreneur to organize his ideas. Also it was found that the business plan should contain the capital of the project, the number of workers, the expected future returns, sources of finance, marketing methods, sources of raw materials, and expected risks.

Interviewees were asked about the importance of the audited financial statement, approved by an external auditor, in the loan process. Datta (2010), and Al Hamami and Diyab (2005), point out that formal banks are usually loathed to lend to SMEs because they suffer from failure to authenticate their information, such as accounting records and financial statements that reflect the efficiency and the capability of the project. The following question was asked:

What do you think is the importance of financial statements approved by an external auditor in the approval of loans provision?

Clearly, all of the respondents agreed that a finance statement checked by an external auditor is important for approval of loans from the bank (see Table 19). One of the respondents said:

“The Central Bank obliges the banks, when giving finance to projects and companies that have legal entity, to make sure that this legal entity should have financial records showing its capabilities, or the bank may resort to finance the owner of the project and request him to bring a salary certificate from the client which is considered as a financial record of the owner of the project and if the client has a monthly income.

The approved financial statements are very important for the bank to evaluate the ability of this person to repay. According to these financial statements, the bank can decide whether to grant finance to the client for 5 years or 10 years. If the finance was given to the client for a period of 5 years, does the client have the ability and income to repay the finance and profit amounts? Thus, through the approved financial statements, the bank can take a suitable decision whether granting or not granting the finance, or even the suitable amount for this finance.” OM1

On the other hand, during in-depth discussion with SME owner-managers, four of them claimed that accountants can manipulate financial statements to some degree (see Table 19). One of the respondents explained:

“Banks did not require approved financial statements before two years ago, but now they ask for audited budgets for three years. However, there is some degree of manipulation going on in the budgets, as by giving an inconsiderable amount to some of the accountants, they can rearrange the budget in line with the bank’s needs and can obtain finance based on these budgets.” OM7

Some of the respondents commented on why a financial statement approved by an external auditor is important. Two of them suggested that the central banks of Kuwait required banks not to give finance without financial statements (see Table 19).

Another respondent suggested that an audited financial statement is requested by the Ministry of Commerce at the renewal of the license (see Table 19). The respondent said:

“Audited budgets are very important as they reflect the credibility of the company and are always requested by the Ministry of Commerce at the renewal of the license, to be sure that the company is successful and whether it achieves profits or losses.” OM11

Table 19 Summary of opinions on audited finance statements approved by an external auditor

Answer options	Response count
Having a finance statement approved by an external auditor is important for obtaining a loan from a bank.	12
There is some degree of manipulation in the finance statements from some accountants.	4
The central bank of Kuwait requires banks not to provide finance without financial statements.	2
The Ministry of Commerce at the renewal of the license requests an audited financial statement.	1

What is clear from these results is that a finance statement approved by an external auditor is important for the approval of loans from banks because the central bank of Kuwait obliges the banks not to provide finance without three years' financial statements. However, there is strong evidence that there is manipulation of finance statements from on the part of some accountants.

Respondents were asked about the importance of the reputation of borrowers and their family background and personal relationships when they applied for loans from the bank. The following questions were asked:

Some researchers suggest that the reputation of the borrower and their family background and personal relationships could affect the decision making in relation to the provision of the loan. What are your opinions on this statement and why? And do you have any experience of this?

Seven of the respondents agreed that the reputation of the borrower and their family background and personal relationships affected the decision making in relation to the provision of loans (see Table 20). One of the respondents stated:

“This principle exists and its severity varies from one country to another. It is also present in all banking practices. If you know an employee in the bank, then it is possible to use his powers to increase the amount of the loan. In Kuwait, this thing is prevalent because of the strength of kinship and social relations among the people where you can get a recommendation to mitigate the restrictions imposed by the bank on granting loans.” OM1

Another respondent reinforced this issue, of the reputation of the borrower and their family background and personal relationships affecting the decision-making in relation to the provision of a loan:

“Of course mediation exists. If the person is affiliated to one of the most prestigious and well-known families, then he can get finance very simply and easily without facing any obstacles. However, the same enterprise may be refused if it is submitted by another person and the institutions refuse to finance it. As I know and have heard previously, the Industrial Bank does not finance restaurant enterprises but sometimes you find that the same bank has financed some restaurants. Then, you discover that the restaurants which have been financed are owned by a girl affiliated to one of the noble families, while there are tens of projects in the same field which are rejected.”
OM6

These points of view agree with those of Burk and Lehmann (2004), Abdesamed & Wahab, (2014), who noted that the advantage of obtaining a loan from the bank might be that the owner, or his or her family, has a pre-existing relationship or history with the bank that makes the process easier.

Four of the respondents believed that family background and personal relationships could have an effect, however this is a negative point to use only the family name as standard to that affect the decision making related to provide the loan (see Table 20).

Another respondent claimed that family background and personal relationships had ceased to have an effect since the financial crisis (see Table 20). The respondent stated:

“Nowadays, things have changed after the financial crisis. In the past, banks have been lenient in granting finance based on name and relations, but today it has become very rare to rely on the person’s name only.” OM5

Table 20 SMEs owner-managers’ opinions on the reputation of the borrower, their family background and personal relationships with regard to loan approval

Answer options	Response count
Believe that family background and personal relationships could have an effect.	7
Believe that family background and personal relationships could have an effect, however this is a negative point.	4
Believe that family background and personal relationships do not have an effect since the financial crisis.	1

It can be concluded, based upon the SME owner-managers feedback, that family background and personal relationships could have an effect on the bank’s decision. However, it is not thought to be good for the banks to only base their decisions on this consideration.

Continuing the discussion with participants, the SME owner-managers were asked whether they agreed that the government should intervene to support the SME sector, and if so, what role it should play. The following questions were asked:

Do you agree that the government should intervene to promote awareness of the importance of SMEs? What should be the government's role in supporting and promoting the SME sector in Kuwait?

Government intervention in supporting SMEs was reported to be a significant element for the sector. All of the SME owner-managers agreed on this point and one of them said:

“Of course, the government has to intervene to support the SME sector. We don't want the government to intervene in providing the physical support and loans only.” OM10

The majority of SMEs agreed that although the government had implemented some support plans for SMEs, that support was insufficient and not successful. One owner-manager explained:

“Many conferences were held to support SMEs under the auspices of his Highness Sheikh Sabah, Emir of Kuwait, and there were recommendations after the conference about the necessity to help young people and the need to remove all the obstacles that hinder SMEs. A delegation of youths was formed to meet the Emir to explain their suffering and the difficulties they face, but unfortunately, we have not seen any ultimate change on the ground.” OM4

As mentioned in the literature review, the intervention of the Kuwaiti government to support the SMEs is still limited and weak and not up to the level of SME owner-managers' ambition. This result is in line with the findings of Rampurwala and Marafi (2011) who claim that, in Kuwait, local policies are fragmented and although several organizations see the benefit of SMEs, they are still in their beginning stages. This means that the launch of new SMEs is likely to be weak, thus reducing their opportunity to contribute to the economy.

Continuing discussions with participants in relation to the question about government intervention, the SME owner-managers were also asked about the role government should play in supporting and promoting the SME sector in Kuwait.

The majority of the respondents (nine out of twelve) agreed that the government should facilitate and smooth the procedures in terms of licenses and official approval (see Table 21). One of them said:

“The government should have the leading role in supporting small enterprises, as all the ministries of the State should cooperate together. And the role required from the government is to facilitate the procedures, which is essential to encourage people to open SEs instead of carrying on home businesses from their houses, which encourages unofficial and unauthorized work which is difficult to monitor.” OM5

Two of the respondents suggested that the government should amend the laws on SMEs; two of them believed that the government should amend the foreign labour recruitment law (see Table 21). One SME owner-manager commented:

“We want the government to intervene to facilitate the current applicable procedures and amend laws such as the capital law. Why do they fix a specific capital for each enterprise that should be deposited in the bank? For example, an enterprise such as a restaurant may have capital of KD 5,000 or maybe KD 100,000. The government should also amend the foreign labour recruitment law, since the current law doesn’t allow recruitment of foreign labour except for a company with capital estimated at KD 1,000,000 or which bears an international trade name.” OM10

Two respondents believed that the government should provide land to the SMEs, and one of the SME owner-managers suggested that the government should establish a college for training SME owner-managers (see Table 21).

Three of the respondents believed that the government should support SMEs through government contracts and that SMEs should take priority (see Table 21). Two of the respondents thought that the government should establish incubators for SMEs (see Table 21). One of them said:

“The government should take care of the owners of SMEs before their establishment and help them to set up the project and in the phase after the establishment of the project. This is the developmental attention that I have found in the countries of Southeast Asia and other countries. An example of this interest is in Algeria, where the Ministry of Small Enterprises is interested in SEs and their development.” OM1

Table 21 Summary of the government’s role in supporting and promoting the SME sector in Kuwait

Answer options	Response count
The government should facilitate and smooth the procedures in terms of licenses and official approval.	9
Believe that the government should support SMEs through government contracts and that SMEs should take priority.	3
Believe that the government should amend the laws governing SMEs.	2
Believe that the government should amend the foreign labour recruitment law.	2
Believe that the government should provide land to SMEs.	2
Believe that the government should establish incubators for SMEs.	2
Believe that the government should establish a college for training SME owner-managers.	1

What is clear from the results is that the government has to intervene to support the SME sector. Although it has given some support, this has been insufficient. The government should facilitate and smooth the procedures in terms of licenses and official approval. This result supports the claim in the literature review by KSPDC (2003) which stated that government procedures are one of the greatest obstacles faced by SMEs in Kuwait. Moreover, the government should amend some of the laws that relate to SMEs such as the foreign labour recruitment law. Some important roles that should be played by government were identified, such as providing land to SMEs, establishing a college for training SME owner-managers, establishing an incubator for SMEs, and supporting SMEs through government contracts and giving them priority.

As mentioned earlier in this chapter, the Kuwaiti government has implemented some support for SMEs and one of the most important elements of this is the Manpower and Government Restructuring Program (MGRP). The respondents were asked about this program through the following questions:

Do you have knowledge of the Manpower and Government Restructuring Programme – MGRP? If so what is your opinion of this programme?

All the SME owner-managers said that they had knowledge of the Manpower and Government Restructuring Programme.

The majority believed that the programme had a positive impact on SMEs (see Table 22). Five of the respondents believed that it had encouraged SMEs through the salary that is paid monthly. One of the respondents stated:

“Yes, I expect that the restructuring program has encouraged SMEs through the salary which is paid monthly, where the amount is useful for any young man thinking about the establishment of a project and it has encouraged many youths to establish SMEs. But the government increments on the salaries of its manpower may contribute to the abandonment of the private sector to work in the public sector and this equation is incorrect.” OM10

Following on from the above result, but linked to the monthly salary, a different three respondents suggested that the programme should support and give the entrepreneurs a greater advantage than those people who worked in the private sector. One of them said:

“I don’t know if they have something regarding SMEs, but when we look to labour support and the guaranteed salary, we find that the workers in both the private sector and the entrepreneurs are the same. In my opinion, there should be a distinction and more money for the initiators and entrepreneurs.” OM5

One of the respondents believed that the programme had a negative impact because it encouraged phantom employment because companies must employ Kuwaiti nationals to obtain licenses and to obtain government contract, (see Table 22).

Another believed that the programme was unable to achieve the objective of its establishment (see Table 22), stating:

“I think, frankly, that this programme is unable to achieve the objective of its establishment due to lack of a specific budget. The programme does not have a budget based on which it can do this. The programme takes funds from companies and does not have the authority to disburse them except with the approval of the Civil Service Commission. Whereas it should take the approval of the responsible person, deputy or coordinator in the Commission, as the programme cannot even arrange a training course due to lack of funds.” OM1

Table 22 SME owner-managers’ opinions of the MGRP

Answer options	Response count
The programme has a positive impact.	10

The programme has a negative impact.	1
Believe that the program is unable to achieve the objective of its establishment.	1

As mentioned in the literature review, the aims of the Manpower and Government Restructuring Programme are to offer jobs for citizens in the private sector and support employees in the private sector with a monthly salary. The success of this aim was supported by the finding.

It can be concluded, based on the feedback from the SME owner-managers, that the Manpower and Government Restructuring Programme has an apposite impact on the SME sector due to the monthly salary.

In continued discussion with SME owner-managers about Kuwaiti implementations and interventions to support the SME sector, the respondents were asked if they were aware of the fund that the Kuwaiti government had recently established, and how they thought the fund should be used. The following questions were asked:

The Kuwaiti Government established a fund with capital of KD 2 billion to support the SME sector. Were you aware of this? How do you think this should be used?

The majority of respondents had knowledge of the fund (see Table 23) and one of them said:

“The fund is now in the establishment phase and all the plans are in the incorporation phase and the actual beginning has started. But the way ahead is very long as it may take one or one and a half years to complete. This depends mainly on the speed of the government’s approval on this organized structure and the system of granting the loan.” OM7

Three of the respondents had no knowledge of the fund (see Table 23).

Table 23 Summary of the SME owner-managers’ knowledge of the government fund to support SMEs

Answer options	Response count
Yes I do know about the fund.	9
No I don't know about the fund.	3

In relation to the questions about the government fund, SME owner-managers were asked how they thought this should be used.

One of the respondents suggested that the fund should use the *musharaka* contract (see Table 24), stating that:

“When the law was drafted before being presented to the National Assembly to be approved, it was determined that the Musharka contract would be used as a base for financing SMEs. It is considered as an international system and *Sharia* compliant” OM1

Another of the respondents explained that the fund should not give government workers an opportunity to return to their jobs (see Table 24). He commented:

“In fact, I didn't peruse the details of the fund very closely, therefore, I can't evaluate it. However, I heard that the related law provides an opportunity for employees in the government sector to establish SMEs through the new fund. All that the employee needs to do is to submit the initiative, and after getting approval, he takes leave from his work. Thus, his job is guaranteed and, if the enterprise fails, he can return to his government job. I think this method will not contribute to making many initiatives successful because the initiator should not get the opportunity to go back to his previous job; at the first sign of difficulty he will think to return to his job. Thus, the fund will suffer a big loss in the resources which should go to serious people in the process of starting initiatives.” OM9

Two of the respondents suggested that the fund's board members should look for experienced workers in the field of SMEs:

“The idea is very beautiful and unique and the fund now is in the process of placing laws and regulations. I know two members of the fund's Board of Directors and I suggest to the management of the fund that they search for experienced workers in the field of SMEs to contribute to the success of the fund's idea.” OM11

One of the respondents suggested that the fund would smooth the government procedures (see Table 24).

The above point of view agrees with the results of the question about government intervention which found that most of the SMEs suffer as result of government procedures.

Furthermore, two of the respondents suggested that the fund should benefit from the banks and the existing institution that supports SMEs (see Table 24). One of them said:

“In my opinion, the government should give banks portfolios to manage in return for a commission to the banks or a percentage from the profits, because banks have the ability and the experience to do that. Therefore, granting a portfolio of 100 - 250 million to the bank to manage it against the existence of an administrative authority for the portfolio is more guaranteed and secured than opening new government entities or companies.” OM5

Table 24 SME owner-managers’ opinions on how the fund should use the money

Answer options	Response count
The fund board members should be looking for experienced workers in the field of SMEs.	2
The fund should benefit from the banks and the existing institutions that support SMEs.	2
Funds should smooth government procedures.	1
The fund should use <i>musharaka</i> contracts.	1
The fund should not give government workers an opportunity to return to their job.	1

The new Kuwaiti fund, established with capital of KD 2 billion, is known about by the SME owner-managers. However, a number of valuable suggestions by SME owner-managers on how the government should use the fund were made. Firstly, with regard to the method of finance: the fund should use *musharaka* contracts and should benefit from the banks and the existing institutions to finance and support SMEs. The second suggestion was about how the fund should operate: for example, not giving government workers an opportunity to return to their jobs; fund boards should be looking for experienced workers in the field of SMEs; and the fund should study the existing experiments. The third suggestion was that the fund should solve some of the problems that SMEs face, for example, to smooth government procedures.

In further discussion with SME owner-managers, the respondents were asked what were the most important challenges faced by SMEs in Kuwait, and whether they were able to suggest any solutions. The following questions were asked:

What are the most important challenges that face SMEs in Kuwait? What are the methods of overcoming these?

Six of the respondents suggested that the issue of manpower is the most challenging for SMEs in Kuwait (see Table 25). One of them stated:

“The most important problem that faces SMEs in Kuwait is the issue of manpower relating to the Ministry of Affairs. This problem has many dimensions; first, the enterprise may need more than 20 workers for work. However, the Ministry of Social Affairs surprises you with allowing only a specific number of employees. Now, we have 8 cars in the enterprise but we have only four drivers. Thus, there is a problem in assessing the need.” OM10

In addition, two of the respondents suggested that bureaucracy is one of the greatest challenges they face (see Table 25). One of them said:

“Bureaucracy is considered as the first problem facing SMEs in the State of Kuwait because getting a license requires great effort from the enterprise owner due to the abundance of demands from more than one authority.” OM1

Following on from the above comments, the respondent suggested a solution to the bureaucracy problem:

“The only solution to this problem is to establish a body affiliated to the fund that supports SMEs. Through this body, the enterprise will be incubated before being financed. This body should also be responsible for supervising the process of issuing the license quickly. The bureaucracy already exists; however it will disappear after a period of time.” OM1

Six respondents suggested that government official documentation and government procedure were the most annoying elements (see Table 25). One of the respondents made a comparison, from his experiences, between Kuwait and Turkey:

“There are many problems that face SMEs, such as first the Ministry of Affairs, the municipality, electricity, commercial licenses and the Ministry of Commerce, as these things are very annoying. One week ago, I went to Turkey and within three days I had established a company, licensed it, arranged a commercial register, opened an account where I have deposited the capital and obtained a certificate for the deposited capital; all this in three days. If I wanted to complete these steps in Kuwait, I would need three to four months.” OM7

In addition, three of the respondents believed that lack of experience is one of the challenges that faces SME owner-managers (see Table 25). One of the owner-managers stated:

“One of the problems that is facing the enterprise owner is the ignorance and lack of experience from which they suffer, since there is no specialized authority that evaluates them. The financiers depend mainly on the feasibility study without considering the experience of the enterprise owner. Sometimes, the enterprise owner makes a feasibility study with an amount of KD 1,000 or KD 2,000 and we approve such feasibility. However, feasibilities contain errors and exaggerations. For example a person conducted a feasibility study for selling a magazine and alleged that he will sell 5 thousand issues in the first year. However, this can't be believed because the market has great magazines that only achieve sales of 2,000 issues, although these magazines are 6 or 7 years old and they are well-known and have great advertisements. Therefore, the enterprise owner has no knowledge about the financial and technical aspects of the enterprise.” OM1

Another three of the respondents highlighted that the government pays no attention to SMEs (see Table 25). One said:

“The State pays no attention to SMEs. Thus, the SME owner suffers unfair competition from the large-scale enterprises which always win the government tenders.” OM1

Two of the respondents suggested that customs procedures are one of the challenges that face SME owner-managers (see Table 25). One of the owner-managers stated:

“The procedures of customs clearance are one of the problems that face us in our work. Now, I pay an amount ranging from KD 100 to KD 800 for each shipment coming from abroad, and I also pay ground fees which are very high. All these difficulties and problems are related to the government authorities. However, we have faced other difficulties such as the lack of experience, especially on the technical side relating to restaurant management.” OM10

Another two respondents suggested that the lack of finance for SMEs is a challenge.

“I am not satisfied with the sources of financing because, as we said, the government support is very limited.” OM5

In addition, three of the respondents suggested that high rents are one of the main challenges facing SMEs.

One of the respondents pointed out that SMEs in Kuwait are mainly influenced by political crises. The respondent stated that:

Kuwait faces a political crisis and does not have political stability, which, in turn, leads to the instability of government and the lack of popularly-elected government, resulting in inefficiency in selecting the persons responsible for this sector. Therefore, this position will be occupied by an unsuitable person. We are suffering from the Ministry of Social Affairs and Labour, as well as the oppression exercised by the Ministry of the Interior through the traffic

systems, since they are very oppressive with regard to expatriates. Sometimes, the expatriate is excluded from the country or sent to prison for a period of time just for committing a traffic offence, although this labourer may play an important role in one of the SEs.” OM6

Table 25 What are the most important challenges faced by SMEs in Kuwait?

Answer options	Response count
The issue of manpower.	6
Official government documents and government procedures.	6
Lack of experience.	3
The government pays no attention to SMEs.	3
High rent.	3
Customs procedures.	2
Lack of finance.	2
Bureaucracy.	2
SMEs in Kuwait are mainly influenced by political crises.	1

As mentioned in the literature review, the World Bank report on how easy it is to start a business ranked Kuwait at 142 out of 185, whereas the average for the Middle East and North Africa stands at the easy end of the spectrum, at 108. The above qualitative data explains Kuwait’s position in related to the average.

It can be concluded from analysis of the SME owner-managers feedback that the SME sector in Kuwait faces many challenges that can be divided into four categories: first, the law regulates the SME sector in Kuwait, for example; in terms of manpower and customs procedures; the second category includes, challenges relating to government, such as bureaucracy in official papers and the lack of government support for SMEs; the third category relates to SME owner-managers themselves in terms of, for example, their lack of experience; and the fourth category concerns the Kuwaiti business environment, for example, lack of finance and high rents.

6.4 Kuwaiti Islamic finance institutions

This section of the thesis is mainly concerned with the second research question of the study, which was: How do Islamic finance institutions meet the needs of small and medium enterprises in Kuwait? The SME owner-managers were asked about: whether

they were satisfied with the financial resources available; the types of financial products offered to SMEs; the banks' requirements when applying for finance; compatible financial institutions for SMEs; the SME owner-managers' opinions of developing a specific financial institution for SMEs, and various other areas related to the second question of this research.

The respondents were first asked about whether they were satisfied with the available financial resources. The following questions were asked.

Are you satisfied with the financial resources available in your institution to fund SMEs in Kuwait? Why?

Eight of them were not satisfied with the financial resources available in Kuwait (see Table 26). One of the respondents suggested that all the available resources seek high profit:

“The financial resources available now are not enough because they seek high profit and although the law is derived from a good idea, it is applied badly.” OM1

This point was reinforced by a respondent who was not satisfied with the financial resources and said that the banks in Kuwait do not have an appetite to finance SMEs.

The respondent stated:

“Actually, the sources of finance in Kuwait are very scant, as many banks don't have the appetite to finance SMEs, and many other banks take the minimum degrees of risk.” OM9

One of the respondents went further to clarify that there are no comfortable sources for financing SMEs, especially for small amounts. The respondent stated that, in Kuwait, banks do not finance small amounts:

“There is no comfortable and proper finance in Kuwait for SMEs. For example, if a person needs an amount of KD 5,000 to establish a small enterprise such as a restaurant, you will not find an entity to fund it in Kuwait because banks don't lend small amounts but they finance small amounts through personal loans, which represents a deficiency in the system, because the loan should be in the name of the project and not the person.” OM7

On the other hand, four of the respondents were satisfied with the financial resources available.

Table 26 Satisfaction with the financial resources available for funding SMEs in Kuwait

Answer options	Response count
Not satisfied with the financial resources available.	8
Satisfied with the financial resources available.	4

This result supported the observations of the World Bank report on doing business in Kuwait (2013). Kuwait is ranked 104th out of 185 economies for ease of obtaining credit. Saudi Arabia and Oman are ranked 53rd and 83rd respectively. This report supports the finding that the majority of SMEs are not satisfied with the financial resources available in Kuwait.

In summary, SME owner-managers are not satisfied with the financial resources either because the banks in Kuwait do not have an appetite to finance SMEs or because the available sources are not appropriate sources of finance for SMEs.

Continuing the discussion with SME owner-managers, the participants were then asked about the types of finance products available to SMEs in Kuwait. The following question was asked.

What types of ‘financial products’ are available to SMEs in Kuwait?

Seven of the respondents suggested that *Murabaha* is the product most used to finance SMEs in the State of Kuwait. The respondents claimed that the Kuwait Finance House and the Kuwait Industrial Bank use *Murabaha* (see Table 27).

Another three of the respondents said that *musharaka* contracts were available sources which were used by the Kuwait Company for SMEs (see Table 27).

Three SME owner-managers suggested that Islamic banks use *Tawaroq* to finance SMEs (see Table 27), and some owner-managers recommended other financial products (see Table 27).

Table 27 Types of financial product for SMEs

Answer options	Response count
<i>Murabaha</i> .	7
<i>Musharaka</i> .	3

Tawaroq.	3
Letter of credit.	1
Qard hassan.	2
Leasing.	1

It can be concluded based on the SME owner-managers input that that *Murabaha*, *musharaka*, and Tawaroq are the products which were considered to be most available to SMEs in Kuwait.

In further discussion with the participants, the SME owner-managers were then asked about the financial institutions' requirements. The following questions were asked:

What are the requirements for SMEs to obtain finance from institutions in Kuwait? And why?

Six of the respondents said that banks ask for official company papers (see Table 28). Three of the SME owner-managers said that banks ask for finance statements (see Table 28). Four of the respondents said that banks ask for business plans (see Table 28).

Table 28 What are SMEs required to provide in order to obtain financing from financial institutions?

Answer options	Response count
Official company papers.	6
Business plan.	4
Finance statement.	3
Collateral.	2
The owner-manager should work full time for the project.	1
The projects should be started.	1
The owner-manager should be a Kuwaiti citizen.	1

In summary, based on the feedback from the SME owner-managers, the official company papers were the items most required for obtaining finance, followed by business plans and financial statements.

Following on from the above question about the banks' requirements when financing SMEs, the participants were asked about compatible financial institutions in terms of using Islamic financial instruments. The following questions were asked:

Which financial institution is more compatible in terms of using Islamic finance instruments as a model for SMEs, and what are the types of support given to SME project owners?

Nine of the respondents suggested that the Kuwait Industrial Bank is more compatible in terms of using Islamic finance instruments as a model for SMEs (see Table 29). Two of the respondents felt that the Kuwait Company for SMEs was more compatible (see Table 29).

“In my opinion, the Industrial Bank and the Kuwait Company for Financing Small Projects play a distinct and important role and they are interested in supporting SMEs.” OM7

Two of the respondents said that the Kuwait Finance House is the more compatible for financing SMEs in Kuwait (see Table 29). One of the SME owner-managers stated:

Table 29 Which financial institution is more compatible in terms of using Islamic finance instruments as a model for SMEs?

Answer options	Response count
Kuwait Industrial Bank.	8
Kuwaiti Company for SMEs.	2
Kuwait Finance House.	2

During in-depth discussions with participants about the compatible financial institutions the respondents were also asked about the type of support that they offer to SMEs.

Two of them mentioned that the Kuwait Industrial Bank takes a low profit from the finance arrangement (see Table 30). One of the SMEs stated:

“Banks, in general, provide finance, including Islamic banks which extend finance to SMEs, but this finance is not subsidized, because the bank aims at profit. Far from it, they take a higher rate from the owners of SMEs, but the support of SMEs occurs through the government portfolios which provide facilities with low profit and there is a facility for payment, such as the Industrial Bank and the Kuwait Company for Financing Small Projects. These are governmental bodies which extend support, but the banks take it from the standpoint of profitability only, because the profit gained on the purpose of SMEs and the purpose of small finance is higher than the finance of large companies.” OM5

Two of the SMEs said that the Kuwait Industrial Bank uses the assets that the bank finances as collateral (see Table 30). Two of them suggested that the Kuwait Industrial Bank uses *qard hassan* as a follow on contract for the main contract (see Table 30). One of the respondents recommended that the Kuwait Company is invested with the SMEs by using the *musharaka* contract rather than use the loan (see Table 30). Two of the respondents suggested that the Industrial Bank and the Kuwait Company for SMEs offer facilitating payments.

Table 30 What are the types of support given to SME project owners?

Answer options	Response count
Low profit for finance.	2
They use the assets that the banks finance as collateral.	2
They use <i>qard hassan</i> as a follow on contract for the main contract.	2
They use a <i>musharaka</i> contract rather than using a loan.	1
Facilitating payment.	1

It was concluded, from SME owner-managers feedback that the Kuwait Industrial Bank was compatible in terms of using Islamic finance instruments, followed by the Kuwait Company for SMEs and the Kuwait Finance House.

After discussion about the compatible finance institutions in Kuwait, the participants were asked about the idea of developing specific institutions for SMEs. The following question was asked:

What do you think of the idea of developing a specific financing institution for SMEs?

The majority of the respondents believed that it would be a good idea to develop a specific institution for SMEs (see Table 31). One of them said:

“It’s a good idea and just as the government has established the buildings of Government Mall through which all personal transactions can be conducted, it should establish centres for SMEs to be nearby the owners of SMEs and to link between all the government authorities such as the Ministry of Commerce, the Municipality and Social Affairs, and through these centres we can complete all the government transactions.” OM4

Only one of the respondents did not believe that it would be a good idea to develop a specific institution for SMEs (see Table 31).

Table 31 What do you think of the idea of developing a specific financing institution for SMEs?

Answer options	Response count
Believe that it would be a good idea to develop a specific institution for SMEs.	11
Do not believe that it would be a good idea to develop a specific institution for SMEs.	1

In summary, SME owner-managers felt that it would be a good idea to develop a specific institution for SMEs.

The SME owner-managers were asked their opinion about whether the Kuwaiti finance sector was capable of helping more SMEs. The following questions were asked:

Do you think the environment of the Kuwaiti finance sector is capable of absorbing finance for more SMEs and guiding them towards a long and successful life? Why?

Six of the respondents believed that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life (see Table 32). On the other hand, five of them felt that the environment was not capable of doing this (see Table 32). One of the SME owner-managers stated:

“The problem is that the banks and the finance sector are not interested in the SME sector. Banks at the moment do not recognise the importance of this sector, whilst in fact this sector is very important and the evidence is that many of the large companies are looking every day for SMEs and acquiring them, and this is the proof of success.” OM7

This point of view agrees with that of Mansur et al. (2005) who claimed that SMEs faced difficulties when seeking loans from commercial banks. Kuwaiti banks are unwilling to extend long-term loans to SMEs in large volumes.

An in depth discussion with one of the respondents indicated that he did not believe that all projects could be successful in Kuwait (see Table 32). The respondent explained his opinion:

“From my own point of view, the enterprises in the industrial sector and service sector can flourish and achieve long-term success.” OM1

Table 32 Do you think the environment of the Kuwaiti finance sector is capable of absorbing finance for more SMEs and guiding them to a long and successful life?

Answer options	Response count
Believe that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life.	6
Believe that the environment of the Kuwaiti finance sector is not capable of absorbing SMEs and guiding them towards a long and successful life.	5
Not all project will be successful.	1

There is a big difference in opinion between SMEs about whether the Kuwaiti finance sector is capable of absorbing and guiding them towards longevity and success. It was found that this opinions was build according to two different point of view, first is the lack of finance sources in Kuwait and the second point is the excepted successful SMEs in Kuwait so who build his decision on the lack of finance believe that the environment of the Kuwaiti finance sector is not capable of absorbing SMEs and guiding them towards a long and successful life. And who build his decision on the excepted sacksful SMEs in Kuwait believe that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life.

6.5 Islamic finance and further support for SMEs in Kuwait

This section mainly concerns the third research question of this study, which is: How can Islamic finance institutions develop further support for SMEs in Kuwait? The SME managers were asked their opinions about the new Islamic legislation, the Islamic finance instruments, using Leasing (hire-purchase) and *musharaka* as sources of finance for SMEs, and their opinions on using *zakat*, Charity and *waqf* as new sources of finance, plus other questions which related to the third research question.

First, the respondents were questioned about new legislation for establishing Islamic banks in Kuwait and whether this law would introduce more opportunities for SMEs. The following questions were asked:

In the light of the new Islamic legislation (laws) for establishing new Islamic banks in Kuwait, do you think that these laws and regulations constitute an opportunity to finance SMEs in the future? Why?

Four of the respondents believed that new laws for establishing Islamic banks in Kuwait would be helpful for financing SMEs (see Table 33), one of them suggesting that the Islamic banks use *murabaha* and *musharaka* contracts as these are helpful for SMEs. The respondent stated:

“What’s good in Islamic banks is that the system adopted in financing is completely different from the traditional banks because the Islamic banks’ finance is often conducted through what is known as ‘Murabaha’, due to the need for it of both parties, and at the same time it is profitable for Islamic banks. The musharaka contract is also one of the contracts used by the Islamic bank.” OM1

A different SME owner-manager believed that new laws for establishing new Islamic banks in Kuwait would be helpful for financing more SMEs. However, this support would be in the future, and not at the moment. The respondent stated:

“There may be support in the future, but I don’t imagine that there will at the moment because the newly established Islamic banks, such as the Warba Bank, Boubayan Bank and the International Bank, don’t have the ability to accommodate SMEs. I think that the law will serve in the long term.” OM5

On the other hand, six of the respondents believed that new laws for establishing new Islamic banks in Kuwait would not be helpful for financing SMEs (see Table 33). One of them suggested that the Islamic banks search for low risk and short-term finance, and that this does not correspond with the needs of SMEs. The respondent said:

“In fact, I’m one of those who have reservations on the orientations of the Islamic banks. It is true that these banks conduct *Sharia* compliant transactions, but the financial and administrative practices are similar to the environment of the traditional banks.” OM9

Another SME owner-manager explained his experience with the Islamic banks and further reiterated this point.

“In fact, I did not get to the stage where I needed to go to the traditional banks so I do not have sufficient experience in the laws used therein, but Islamic banks should simplify the procedures, especially those that relate to Tawarq contracts and getting cash. I have experience with one of the Islamic banks and after the explanation from the bank staff for the method used to get the cash, I was surprised by the abundance of procedures and the method used, so I didn’t apply for finance from that bank.” OM4

Table 33 SME owner-managers’ opinions of the new Islamic legislation for establishing new Islamic banks in Kuwait

Answer options	Response count
Believe that new laws would not be helpful to finance more SMEs in Kuwait.	6
Believe that new laws would be helpful to finance more SMEs in Kuwait.	4

In summary, according to the respondents, the new laws for establishing new Islamic banks would not help to finance more SMEs in Kuwait.

Continuing the discussion with participants about the Islamic banks, the respondents were further asked their opinion about whether there were any advantages to using Islamic instruments. The following questions were asked:

Do you think that Islamic financial instruments are more suitable than commercial instruments for SMEs? Why?

It was found that seven of the SME owner-managers believed that Islamic instruments are more suitable than commercial instruments (see Table 34). One of the respondents suggested that in the Islamic bank contracts, such as musharaka, the banks become a partner with the SME owner-manager in both profit and loss. One respondent said:

“Yes, they are more suitable because, if the Islamic bank uses the musharaka contract, it becomes a partner with the enterprise owner in both profit and loss, unlike the traditional loan, in which the bank doesn’t bear any costs incurred by the enterprise owner whether the enterprise incurs losses, achieves profits, goes into bankruptcy, or the owner is sent to prison.” OM1

The above quotation agrees with the observations of Mohildin, Iqbal, Rostom and Fu (2008) who noted that the instruments of Islamic finance have strong historical roots, and provide a rich set of tools and non-traditional approaches, if implemented in the true spirit of Islam, that can lead to the reduction of poverty and inequality in those countries which suffer from widespread poverty. Therefore the policy makers in Muslim countries, who are serious about developing access to finance, should exploit the potential of Islamic instruments to achieve this goal.

On the other hand, five of the respondents believed that Islamic instruments are more suitable from a religious point of view (see Table 34). One of them stated:

“In fact, I didn’t evaluate the finance tools of the other banks. However, I see similarity between the currently applicable Islamic finance tools and the traditional banks after excluding the legality of the transactions conducted by the Islamic banks.” OM9

One of the respondents believed that finance from all banks is prohibited (see Table 34). The respondent stated:

“I’m convinced that financing from all banks is prohibited, whether from Islamic banks or others, irrespective of the fatwa from banks.” OM2

Table 34 SME owner-managers’ opinions of the Islamic finance instruments

Answer options	Response count
Believe that Islamic instruments are more suitable than commercial instruments.	7
Believe that Islamic instruments are more suitable from a religious point of view.	4
Believe that finance from all banks is prohibited.	1

In summary, it has been recognized from the SME owner-managers that the Islamic instruments are more suitable than commercial instruments.

Islamic banks in Kuwait use many instruments, such as *Murabaha*, *Tawarog* and others. However, some of these instruments, such as Leasing (hire-purchase), are not used to finance SMEs. The respondents were asked their opinions on leasing in relation to SME finance. The following questions were asked:

Today many Islamic banks use leasing (hire-purchase) as a source of finance.

What do you think about leasing as a new source of finance for SMEs in Kuwait?

Do you believe it will be helpful? What are the disadvantages of leasing?

Seven of the SME owner-managers believed that leasing is useful for financing SMEs (see Table 35). One of the respondents suggested that the advantage of leasing is that it helps SMEs to buy equipment in instalments. The respondent stated:

“It is an international financing system and *Sharia* compliant. It is also an excellent system adopted in financing which is also one of the long-term methods of financing. Out of the advantages of this system is the ability to purchase machines, equipment and decoration of a shop in instalments.”
OM1

In further discussion with the participants, two of them suggested that leasing is useful for buying assets and real estate.

“Ijarah ending with ownership is one of the good contracts and it is used with real estate and assets such as cars and others. And in my view, the *Murabaha* contract is the best contract for SMEs.” OM7

Another of the respondents who believed that leasing is useful for financing SMEs suggested that it is also a useful contract for banks.

“Ijara ending with ownership is one of the good contracts but its use is still not as common as the use of *Murabaha*, where Ijarah ending with ownership is less in funding, especially its use to finance SMEs because Ijarah is used in some of the large financings and often used in equipment and fixed assets, and is not used to finance goods and others. For banks, there are advantages of using the product of Ijarah including the fact that the asset is in the name of the bank and is registered in its books. The advantage of Ijara contracts for the client, if compared with *Murabaha* contracts, we find that the first is more flexible and able to control payments and repayment, while in *Murabaha* the client cannot change the dates of settlement to a period of time without profits, but it is possible in Ijara contracts.” OM5

On the other hand, five of the SME owner-managers did not have sufficient knowledge about leasing to enable them to comment (see Table 35).

Table 35 SME owner-managers’ opinions of leasing as a source of finance for SMEs

Answer options	Response count
Believe that leasing is useful for financing SMEs.	7
Do not have sufficient knowledge about leasing.	5

It can be concluded from the SME owner-managers feedback that leasing (hire-purchase) is useful for financing SMEs in Kuwait. This finding supports and agrees with the views of Kettell (2010) who suggested that, in the area of Islamic financing, leasing is an important tool with a great deal of business potential for Islamic financial institutions, not just because of the benefits, but also because of the ‘nature-based assets’ investment in Islamic finance.

The Kuwait Small Projects Development Company is the only financial institution in Kuwait that uses *musharaka* contracts. The SME owner-managers were asked about their opinion of *musharaka* in relation to SME financing. The following questions were asked:

What do you think of musharaka as a source of finance? What would you say are the advantages/disadvantages of musharaka?

Nine of the respondents believed that *musharaka* is useful for financing SMEs (see Table 36). One of them suggested that *musharaka* and leasing are the best alternative Islamic contracts for financing SMEs. The respondent said:

“I think that financing by *musharaka* or leasing the equipment are the alternative Islamic systems to the traditional approach. There is no system better than this as an alternative to the traditional methods.” OM1

On the other hand, three of the SME owner-managers did not have sufficient knowledge about *musharaka* contracts to enable them to comment (see Table 36).

Table 36 SME owner-managers’ opinions of musharaka as a source of finance for SMEs

Answer options	Response count
Believe that <i>musharaka</i> is useful for financing SMEs.	9
Do not know enough about <i>musharaka</i> .	3

What is clear from these results is that *musharaka* is a useful source of finance for SMEs in Kuwait. This finding agrees with Kettell (2010), who suggested that one of the most significant characteristics of Islamic banking and finance is that it encourages risk-sharing between providers of funds (investors) and users of funds

(entrepreneurs). Under conventional banking systems, by contrast, the investor is assured of a predetermined rate of interest.

The SME owner-managers were asked the following questions to find out their opinions on using *zakat* and charity money as new sources of finance for SMEs in Kuwait:

As you know, the zakat House in Kuwait is considered to be one of the most important organizations in the Islamic world. What do you think about zakat and charity as a new source of finance for SMEs in Kuwait? Do you believe it could be helpful and in what way? What would you say about the advantages/disadvantages of zakat?

Five of the respondents believed that using *zakat* and charity would be helpful for SMEs (see Table 37). One of them suggested that:

“The support may not come from *zakat* monies, but it may come from the monies of *qard hassan* or the support of SMEs may come from the traders. Thus, if the traders make a portfolio managed by the *zakat* House and through which the needy can be supported to establish their own enterprises to achieve satisfaction and do not need help, this will be to the greater good. Of course, there are many benefits achieved by the State because it is responsible for the affairs of the nationals. It is also responsible for helping this category. Thus, this matter normally achieves benefits for the State, as this is recorded in economic principles.” OM1

Another respondent suggested using the *zakat* House to finance SMEs in Kuwait.

“In Kuwait we have the *zakat* House which distributes money to the people. The *zakat* House has a great deal of money, where it can establish associations that fund SMEs within reasonable limits, whereas you know that there are a lot of people who have the ability to establish a project but they lack finance, and there must be strict control on the granting of finance.” OM2

Three of the respondents did not know to what extent this idea would be authorized from a *Sharia* perspective, but one of the respondents stated that if it were permissible it would be a good idea (see Table 37).

“In fact, I don’t know to what extent this matter is authorized from a *Sharia* perspective. However, if the monies from *zakat* are used in supporting SMEs, it is a good proposal and will contribute mainly to developing the economy and creating job opportunities.” OM9

On the other hand, three of the respondents did not have sufficient knowledge about using *zakat* and charity as new sources for SMEs to enable them to comment (see Table 37).

Table 37 SME owner-managers' opinions on using *zakat* and charity as a new source of finance for SMEs in Kuwait

Answer options	Response count
Believed that using <i>zakat</i> and charity would be helpful.	5
Do not know to what extent this idea is authorized from a <i>Sharia</i> perspective and, if permissible by <i>Sharia</i> , it would be a good idea.	3
Do not have sufficient knowledge about using <i>zakat</i> and charity as new sources for SMEs.	3
Do not know to what extent this idea is authorized from a <i>Sharia</i> perspective and, if permissible by <i>Sharia</i> , it would not be a good idea.	1

It has been recognized from analysis of the SME owner-manager data that using *zakat* and charity would be helpful sources of finance for more SMEs in Kuwait. The findings of this qualitative data agree with those of Mohieldin, Iqbal, Rostom and Fu (2011), who claim that the theory of *zakat* can be expanded to provide a sustainable source of income for the beneficiaries. If *zakat* funds were managed properly, pooling these funds and encouraging the beneficiaries to direct them towards starting SMEs would contribute to a more conducive development impact and help reduce disparities within the economy.

Respondents were asked about using *waqf* as a new source for financing SMEs, as follows:

What do you think of waqf as a new source of finance for SMEs in Kuwait? Do you believe that it would be helpful and in what way? What are your opinions on the advantages/disadvantages of waqf?

Seven of the SME owner-managers believed that it would be helpful to use *waqf* as a new source of finance for SMEs (see Table 38). One of the respondents said:

“The use of *waqf* funds in financing SMEs is a good idea and it is possible that a person could make available a portion of *waqf* proceeds to finance small projects. The Awqaf Public Foundation may market the idea of special *waqf* from its proceeds we can spend on SMEs, but it must be managed by

competent authorities and not by the Awqaf Public Foundation because the issue of funding needs a team specialized in the study of suitable and unsuitable projects for funding, where the competent authority should study the project at large.” OM5

Another SME owner-manager further emphasised this point by stating:

“In Kuwait, we have the experiment of the Kuwait Awqaf Public Foundation, and this institution is interested in Awaqaf (endowments) and plays an important role in developing society. However, this foundation doesn’t pay attention to the economic side, because it considers these initiatives are profitable SEs, while the economic side plays a positive and important role in developing society. Through using the monies of *waqf*, job opportunities can be created and many doors of sustenance can be opened. Through these monies, the peoples’ culture can be changed; thus instead of going to the public sector, they go to the private sector.

Making use of the *waqf* monies properly may have a great effect on the economy. *waqf* is also considered as a good and sizeable resource at the same time.

As you know the biggest educational and health institutions in America and in the world are non-profitable institutions and most of their finances, success and studies come from *waqf*.” OM9

On the other hand, five of the respondents did not have sufficient knowledge about using *zakat* and charity as new sources for SMEs to enable them to comment (see Table 38).

Table 38 SME owner-managers’ opinions of waqf as a new source of finance for SMEs in Kuwait

Answer options	Response count
Believe that it would be helpful to use <i>waqf</i> as a new source of finance for SMEs.	7
Do not have sufficient knowledge about using <i>waqf</i> as a new source of finance for SMEs.	5

In the light of the above analysis, it can be concluded that using *waqf* as a new source of finance for SMEs would be helpful.

The respondents were asked about their perception of using *qard hassan* as a new source of finance for SMEs. The following questions were asked:

Many Islamic countries, such as Saudi Arabia and the United Arab Emirates, have institutions that use *qard hassan* as sources of finance for SMEs. What do you think about *qard hassan* as a new source of finance for SMEs in Kuwait?

Do you believe that it would be helpful and in what way? What would you say about the advantages/disadvantages of qard hassan?

Nine of the respondents believed that it would be a good idea to use *qard hassan* as a new source of finance for SMEs (see Table 39). One of them suggested that it would be a sensible idea if a group of large companies established a fund to finance SMEs by using *qard hassan*, as follows:

“In my opinion, the use of *qard hassan* is a good idea and I suggest that a group of merchants and a group of large companies establish a fund to finance SMEs. But one of the disadvantages in *qard hassan* is that there are some people who do not want to deal with *qard hassan* because they don't want anybody to do a favour for them.” OM5

The above quotations draw our attention to the claims by Mohieldin, Iqbal, Rostom and Fu (2011), who suggested that Islam emphasizes brotherhood among Muslims and the main principle of that brotherhood is to care for and share with each other. The main objectives of *qard hassan* are: to support the needy, to establish better relationships between rich and poor, to mobilize wealth among all people in society, to improve the national economy, to enable the poor to create new job markets and business ventures by using their merits, skills and expertise, and to eradicate unemployment problems from society.

Furthermore, in depth discussion with participants revealed that *qard hassan* would help the SMEs to grow. One respondent stated:

“Of course, this idea is undoubtedly positive because providing *qard hassan* for SMEs will help in developing SEs and decrease costs of finance because the companies or SMEs need small amounts to grow or for seizing a specific opportunity. Thus, if they get these amounts through *qard hassan*, they may face risks or fail, therefore any finance for the small-scale enterprise is considered as a good opportunity for SMEs. If this loan is *qard hassan* and without interest, this is a positive trend, creating opportunities for enhancing the existing initiatives, and contributing to the mechanism for launching new initiatives.” OM9

On the other hand, four of the respondents did not have sufficient knowledge about using *qard hassan* as a source for SMEs to enable them to comment (see Table 39).

Table 39 SME owner-managers' opinions on the use of *qard hassan* as a source of finance for SMEs

Answer options	Response count
Believe that it would be a good idea to use <i>qard hassan</i> as a new source to finance SMEs.	8
Do not have sufficient knowledge about using <i>qard hassan</i> as a new source for SMEs.	4

In summary, it can be concluded that SME owner-managers believe that it would be a good idea to use *qard hassan* as a new source of finance for SMEs. This finding supports the claims of Mohieldin et al. (2011), who suggested that *qard hassan* could also be considered an excellent tool with which to support SMEs, and to penetrate low income levels which are deprived of the financial resources that are not exploited properly in Islamic countries.

6.6 Summary

This chapter analyses the interview responses of twelve SME owner-managers in order to reveal their opinions and perceptions of various matters related to the research question.

It can be concluded from the SME owner-managers that in Kuwait there is no agreed official definition of what constitutes an SME. On the other hand, the SMEs are extremely important to the Kuwaiti economy. They contribute significantly in relation to job creation, sources of innovation, helping to spend money inside the country, reducing imports, reducing the number of people working in the government sector, and finally, by adding value to GDP.

SME owner-managers recommended many things that need to be changed in banking credit policy such as implementing the new SME law (see index). Islamic banks in Kuwait should finance start up SMEs, they should establish departments for SMEs, and they should accept any kind of collateral to improve the Kuwaiti SME sector.

Additionally, many SME owner-managers emphasized that business plans and financial statements (approved by an external auditor) are important for the approval of loans from banks.

It has been recognized in this chapter that family background and personal relationships could have an effect on the bank's decision. In addition, many SME

owner-managers implied that the government needs to intervene to support the SME sector. The government should facilitate and smooth its procedures in terms of licenses and official approval.

In the light of this chapter, it can be seen that the SME sector in Kuwait faces many challenges that can be divided into four categories. First, the law regulates the SME sector in Kuwait, for example in terms of manpower and customs procedures. Second, there are challenges relating to government such as bureaucracy in official papers and the lack of government support for SMEs. The third category relates to SME owner-managers themselves and includes, for example, their lack of experience. The fourth category concerns the Kuwaiti business environment, in terms of, for example, lack of finance and high rents.

It is noteworthy that *Murabaha*, *musharaka*, and *Tawaroq* are the products which were considered to be most available to SMEs in Kuwait. In addition, it was found that the Kuwait Industrial Bank was most compatible in terms of using Islamic finance instruments, followed by the Kuwait Company for SMEs and the Kuwait Finance House.

What is clear from this chapter is that leasing (hire-purchase) and *musharaka* are useful for financing SMEs in Kuwait. It has been recognized that using *zakat*, charity, *waqf* and *qard hassan* as new sources of financing would be helpful for SMEs.

Having looked into the SME owner-managers' perceptions with regard to SME finance in Kuwait, the next chapter deals with perceptions of the bank managers of the Islamic banks.

Chapter 7 Results and analysis of the bank managers' perceptions

7.1 Introduction

This chapter discusses the findings of four semi-structured interviews that were conducted with bank managers in Kuwait in order to reveal their opinions and perceptions of various matters related to SME finance. This research divides institutions that offer finance to SMEs in Kuwait into two kinds: the first is those that specialize in SMEs finance, and the second is the normal commercial banks. Respondents of the study were managers from the SME department.

It was realised that there would be areas of both agreement and disagreement between the bank managers, however, generally speaking, nearly all banks in Kuwait have the same attitude and vision with regard to SMEs. The open-ended questions of each interview were concerned with the same four main categories, which were discussed previously in Chapter Six. Each category covers a variety of related questions.

The four main issues that were investigated in the interviews related to the following:

- 1 - Demographic and introductory questions.
- 2 - Factors that affect SMEs in Kuwait.
- 3 - Kuwaiti Islamic finance Institutions.
- 4 - Further support for SMEs from Islamic finance.

7.2 Introductory demographic questions

This chapter analyses the interview responses of four bank managers from each of the two types of financial institution (two from each). Table 40 shows the type of interview participant, the name of the institution for which they work, their current position, education, and their experience in years.

Table 40 Profile of respondents

Case type	Respondent	Name of institution	Gender	Respondent's position	Age	Experience	Experience in this company	Education
Case one Conventional Islamic bank	BM1	Kuwait finance house	Male	Executive Manager	30-39	11-15	5-0	Post graduate degree
	BM2	Boubyan Bank	Male	Senior Manager	30-39	11-15	0-5	University first degree
Case two Specialized institution financing SMEs	BM3	The Industrial Bank of Kuwait small enterprises finance portfolio	Male	Assistant Manager	30-39	6-10	6-10	University first degree
	BM4	Kuwait Small Projects Development Company	Male		30-39	11-15	0-5	Post graduate degree

BM = Bank manager

7.3 Factors affecting SMEs in Kuwait

This mainly concerns the first question of this study which was: What financing problems and challenges do small and medium enterprises (SMEs) encounter in Kuwait? The first question that was asked was:

Some experts in the field of SMEs suggest that there is no official definition for SMEs in Kuwait. What would you say about the lack of an official definition? How would you define an SME?

One of the respondents indicated that there was no official definition for SMEs in Kuwait, and that this was a problem (see Table 41).

On the other hand, two of them believed that there was an official definition (see Table 41). According to one, in Kuwait there is a definition for SMEs, which depends on capital. The respondent stated:

“Of course there is no one concept for SMEs all over the world. In Kuwait there is a definition for SMEs, which depends on the size of the capital.” BM4

However when the respondent was asked whether this definition is familiar to all institutions in Kuwait, he stated:

“I don’t know whether such a definition is adopted by all entities but the thing which supports such a definition is the recent decision passed for the

establishment of a special fund for the support of small and medium projects, which also applies the same definition.” BM4

One of the respondents believed that there was an official definition for SMEs in Kuwait but that this was not the true definition (see Table 41). The respondent stated that:

“In Kuwait, CBK defines SMEs as enterprises with finance less than KD 250,000 and I don’t believe that is the true definition for SMEs.” BM1

One of the participants suggested that there was no one definition for SMEs. He stated:

“It’s true that the definition of SMEs varies from one country to another. In particular, there are countries which consider the number of employees is the appropriate definition for SMEs, while other countries consider capital and others consider turn over.” BM1

Table 41 Bankers’ opinions about the lack of an official definition for SMEs in Kuwait

Answer options	Response count
Believe that there is an official definition for SMEs in Kuwait.	2
Believe that it is a problem that there is no official definition for SMEs in Kuwait.	1
Believe that there is an official definition for SMEs in Kuwait but this is not the true definition.	1

With regard to the question about how the respondents would define the SMEs in Kuwait, two of them made the same comment (see Table 42). They stated that the best definition for SMEs in Kuwait was based on capital value. One respondent said:

“There are two definitions for Small Enterprises (SEs): the first one is according to size of capital, as each project with capital less than KD 500,000 is considered as a Small Enterprises and this is currently the recognized definition in Kuwait. The second is as per the number of labourers where each project with less than 100 employees is considered as a small enterprise, but the first definition is the prevailing one in Kuwait.” BM3

Another respondent further articulated the issue of defining SMEs according to capital value. However, he indicated that small enterprises were those with capital less than KD 250,000.

“In Kuwait there is a definition for SMEs, which depends on the size of capital. They define small enterprises as projects with capital not more than KD 250,000 and medium enterprises as those with capital of KD 250-500 thousand; this is in Kuwait.” BM4

One of the other participants indicated that the definition that is based on turnover and loan size is the best for the banking sector (see Table 24):

“From my point of view, the best definition for us here in Kuwait is turnover and loan size, so if we can make a common definition between the two standards then it will be the proper and accurate definition of SMEs.” BM1

He explained in detail why this definition is more suitable for Kuwait, saying:

“This definition is more suitable for us as banks, as it enables us to know how to deal with companies where, sometimes, companies request financing of KD 50-100 thousand only, while their sales reach KD 5-6 millions p.a. Then, are these companies classified as SEs or as large sized enterprises?” BM1

On the other hand, one of the interviewees indicated that SMEs are defined along qualitative rather than quantitative lines (see Table 42). The respondent suggested that the only difference between small and large enterprises is that with small enterprises the banks always deal with the owner, whereas with large enterprises they always deal with the financial staff. This is the only difference between large and small enterprises.

The above results support claims by Bolton (1971) who said that it had become clear that small firms could not be adequately defined in terms of employment, assets, turnover, output or any other arbitrary single quantity, nor would the same definition be appropriate throughout the economy.

Table 42 Summary of how bankers define SMEs

Answer options	Response count
Definition based on capital value.	2
Definition based on turnover and loan size.	1
Qualitative definition.	1

In summary, it can be concluded that bank managers believe that there is an official definition for SMEs in Kuwait. However, this is not in agreement with the SME owner-managers' point of view.

Additionally, from the above qualitative data, it is clear that there is no agreement between the bank managers with regard to defining SMEs, although two of the respondents defined the SMEs in Kuwait according to the capital standard, which agrees with the SME owner-managers' point of view. Despite this, however, they did not agree on an amount of capital. This result is in line with Alhajeri (2012) who found that there was no agreed definition for SMEs in Kuwait.

Furthermore, from the above qualitative results it is clear that the bank managers use many quantities standards to define SMEs. This result supports the claim by Ardic et al. (2011), which suggested that most definitions for SMEs are based on the following three quantitative standards: the number of employees, sales, and loan size.

The respondents were next asked about the importance of SMEs in the development of Kuwait's economy:

In your opinion, how important are SMEs to the development of the Kuwaiti economy?

The majority of participants made it clear that SMEs are extremely important to the Kuwaiti economy, as expressed by this bank manager:

"It is well-known that SMEs have significant influence in all countries of the world, particularly the developed countries, such as Japan and the USA, where SMEs account for 50-90% of the GDP." BM4

Some bankers summarised why SMEs are important for the Kuwaiti economy in general and others pointed out their importance for the banking sector. Almost all participants stated that SMEs are important because they add value to GDP (see Table 43), although Kuwait is similar to the GCC countries where the main source of GDP is oil. Many GCC countries have recently, however, noted the importance of SMEs. One respondent commented:

"In Kuwait, as in all the Gulf countries, the local GDP depends basically on oil; therefore the size of SMEs compared to the GDP of the state income is not significant. On the contrary, the share of SMEs is very weak. I don't have precise statistics or figures or know how much the percentage of the domestic product is, but recently there was a goal, a trend to support the SME sector. For example, the government established the Kuwaiti Company for Small

Projects in 1997, which began its activity in 1998 and was, frankly, in the lead with regard to supporting small and medium projects.” BM4

This result supports the argument by Rampurwala and Marafi (2011), who suggested that in Kuwait local policies are fragmented, and although several organizations see the benefit of SMEs, they are still in their beginning stages. This means that the launch of new SMEs is likely to be weak, thus reducing their opportunity to contribute to the economy.

As mentioned in the literature review, Kuwait’s parliament has approved a new development plan (KAMCO, 2011). The most important goal of the plan is to revive the economy in Kuwait in an attempt to grow GDP. The plan is expected to highlight the role of the private sector, promote all types of investment in Kuwait, diversify the economy, and reduce dependence on oil and gas (Abotalaf, 2011).

On the other hand, two of the respondents pointed out that SMEs are important because, they believe, they are complementary to large businesses (see Table 43). One of them stated:

“Further, the importance of SMEs to the economy is that they are supportive of large sized enterprises.” BM1

The respondent gave an example of how SMEs can be complementary to large businesses.

“...such as the big restaurants of Al Shaya that are widespread in Kuwait; without the existence, variety and diversity of SMEs which provide raw materials, Al Shaya stores wouldn’t be able to succeed and grow. It also would be difficult for it to work because SEs provide it with raw materials; e.g. when it needs meat for restaurants, there is a diversity in SEs which provide meat products and this is a vital and important role of SEs.” BM1

Some respondents believe that SMEs are a key source of job creation (see Table 43). One of them said:

“The importance of SMEs is manifested also in serving and supporting the national economy, as well as in serving the young and the state’s direction at large in terms of reducing unemployment and working in the public sector and ministries. SMEs are also contributing to the increase in the per capital income.” BM3

Some respondents believed that SMEs help to increase income for people (see Table 43). One of the interviewees stated:

“SMEs are also contributing in increasing income per capita.” BM3

Furthermore, some bank managers point out the importance of SMEs to the banking sector. One suggested that the banks should have variety in their finance portfolios:

“In my opinion, SMEs form the infrastructure of any economy worldwide and this is what the world economic crisis proved as it showed the capacity and efficiency of SMEs to survive during the crisis. As banks, we should have variety in our financing portfolio, as we should have finance for these SEs in order to achieve diversity in terms of enterprises and risks and not only to focus the bank’s finance on the real estate sector and large sized enterprises sector. Banks should deal with SMEs because their risks are different from those of large companies and also of real estate financing.” BM1

Table 43 Bankers’ summary of the importance of SMEs

Answer options	Response count
Believe that SMEs add value to GDP.	3
Believe that SMEs are complementary to large businesses.	2
Believe that SMEs help to encourage the spending of money inside the country.	2
Believe that SMEs help to increase capital income for people.	1
Believe that SMEs are sources of job creation.	1
Believe that financing SMEs will help to distribute the risk that the banks face.	1

In summary, the bank managers agree with the SME owner-managers that SMEs are extremely important to the Kuwaiti economy. They also agree that a significant role is played by the SMEs in relation to job creation, encouraging the spending of money inside the country, and adding value to GDP. In addition, the banks suggested that SMEs are complementary to large businesses and will help to distribute the risk that banks face.

The respondents were asked about the changes that could be made to banking credit policy to support SMEs. The following question was asked.

In your opinion, what are the things that could be changed in banking credit policy to aid the development of Kuwait’s SME sector?

Two of the respondents suggested that the government should act as guarantor for SMEs by issuing security certificates to banks so that SMEs could obtain finance from the banks without offering collateral.

“In my opinion, the government shouldn’t fund SMEs by itself and compete with banks in this sector, but it should provide banks with guarantees whereas the latter should fund SMEs. Government should also extend guarantees to banks on a part of the risks relating to SMEs because these risks are high and, according to statistics, 90% of SMEs will not survive more than two years from start-up.” BM1

Furthermore, one respondent suggested that banks should finance and support the local SMEs, rather than franchises.

Table 44 Bankers’ opinions on the things that could change in banking credit policy to aid the development of Kuwait’s SME sector

Answer options	Response count
The government should act as guarantor for the SMEs by issuing security certificates to the banks.	2
The bank should finance and support local SMEs, rather than franchises.	1

In summary, it was found that the bank managers need the government to act as guarantor so that they can meet the needs of SMEs. The SMEs’ needs include, access to start-up finance, the establishment of dedicated SME departments, and that the banks should accept any kind of collateral.

The bankers were next asked about the obstacles that face SMEs when they opt for finance, and whether they had a solution to offer. The following question was asked:

Research shows that one of the obstacles facing SMEs in Kuwait is access to funding. What do you suggest in order to tackle this problem within the permissibility of Islamic financial law?

Three of the respondents believed that access to finance in Kuwait was an obstacle (see Table 45). One of them thought that it was not (see Table 45), as follows:

“I don’t agree with you on this point. As for us, especially the Industrial Bank’s SMEs portfolio, it’s easy to obtain finance if the client is eligible.” BM3

On the other hand, one of the respondents suggested that access to finance in Kuwait for SMEs was not an obstacle (see Table 45).

Table 45 Bankers' opinions on access to finance for SMEs

Answer options	Response count
Access to finance is an obstacle.	3
Access to finance is not an obstacle.	1

The bankers were asked if they had a solution to the problem posed by the obstacles to finance which would be permissible under Islamic financial law. Two of them suggested that the bank should use the *musharaka* contract (see Table 46). One of the respondents suggested that banks should use the assets that banks will finance it as a collateral.

One of the interviewees, however, suggested that Islamic banking should establish special funding to support SMEs (see Table 46).

Table 46 Summary of approaches to removing the obstacles to finance for SMEs

Answer options	Response count
By using the <i>musharaka</i> contract.	2
By using the assets that bank finance it as a collateral.	1
The government should issue security certificates for the SMEs.	1

It can be concluded from the analysis that the bank managers agree with the owner-managers that access to finance is an obstacle to SMEs. The main reason for this is that SMEs lack collateral. For this reason, the bank managers suggested alternatives such as *musharaka* contracts, because in Islamic law it is not permitted to take collateral in *musharaka*.

Respondents were next asked about the principle of requiring collateral and if they could suggest any reasonable alternatives, particularly when dealing with SMEs. The following questions were asked:

Most banks in Kuwait require collateral. What do you think of the principle of requiring security collateral? Are there other alternatives you would suggest?

It was noted that the majority of respondents made the same comment with regard to collateral, three stating that it was important (see Table 47). The majority of interviewees commented that SMEs in Kuwait are very risky, which is why the banks ask for collateral. A bank manager explained:

“Of course, I do not see any problem if the banks ask for collateral from the project owner if the project involves certain assets, because the guarantee is a good indicator of the ability and serious aims of the owner.” BM4

Furthermore, the majority of the respondents pointed out that the level of collateral required by the bank should be reasonable for the SMEs. One participant indicated that:

“Such collateral should be reasonable according to the size of the project or its assets.” BM4

One, however, believed that although collateral was an important principal; there were other things that were more important (see Table 47). He believed that Islamic banking should consider the project and its economic feasibility before considering collateral because all the risk comes from the project itself. The respondent stated:

“I don't like the use of collateral as, in my opinion, all the risks are those of the project and nothing else, so at the beginning, and before considering the collateral, we should take its economic feasibility into account.” BM1

Table 47 Bankers' opinions about the requirement for security collateral

Answer options	Response count
Believe that collateral is important.	3
Believe that collateral is important but there are other things that are more important.	1

With regard to the importance of collateral and whether there are other alternatives, some respondents suggested other approaches, especially where the SME owner does not have collateral, either because they are new university graduates or for other reasons. Two of the respondents indicated that using the asset that the bank is finance

as collateral could be a solution for those SMEs that do not have collateral (see Table 48). The participant said:

“The bank also mortgages the financed assets as collateral for the project. If these assets are insufficient we ask the customer for additional collateral.”
BM3

In this case the banks only finance the projects that have assets, not all projects.

In addition, two of the respondents pointed out that another alternative to collateral was for the SME owner-manager to wire all of his income to the bank (see Table 48). The bank managers also suggested contracts such as *musharaka* and Leasing that cannot be used with collateral because of Islamic law.

Table 48 Summary of alternatives to collateral

Answer options	Response count
Using The asset that the bank is finances as a collateral.	2
Bank wire transfer to the bank for the income.	2
Personal guarantee.	1
Credit history.	1
<i>Musharaka</i> contract (joint company).	1
Leasing contracts.	1

The respondents were asked about the importance of a business plan as a prerequisite for obtaining finance and what banks expect to see in a business plan. The following questions were asked:

Some financial institutions and banks require a business plan for obtaining finance. In your opinion, how important is a business plan as a prerequisite for obtaining finance? What do you think should be included in a business plan?

Two of the participants indicated that a business plan is extremely important as a prerequisite for obtaining finance (see Table 49). One said:

“In my opinion, this is necessary, because we are a financing institution. When somebody applies with a clear and well-studied plan, this will help in granting the financing, and through such a plan we may explore the experience and ability of the person.” BM4

Another bank manager explained his opinions:

“If it’s a new company, he should extend collateral to the bank and also the business plan.” BM2

Two other respondents pointed out that a business plan is important as a prerequisite for obtaining finance, but there are other things that are more important (see Table 49).

“To make it easy for the customer, we, at the bank, don’t ask the customer for a feasibility study for the project before the finance because the external offices, which prepare the feasibility study, take a large sum of money from the customer. During the interview with the customer, we explain to him the required things in terms of some of the data that the customer should know, such as quotations and the number of labourers and their salary and titles, and regarding the quality of products and services, etc. To be able to provide this data, the customer should have a clear vision about the project. But as an approved feasibility study with a material value, it is not required to facilitate the matter for the customers.” BM3

Table 49 Bankers’ opinions of the business plan

Answer options	Response count
Believe that it is extremely important, as they require the business plan before granting finance.	2
Believe that it is important, as they require the business plan before granting finance but there are other things that are more important.	2

With regard to the respondents’ expectations of what should be in a business plan, the four managers all expect to see general information about the SMEs (see Table 50). One of them indicated:

“We encourage each applicant to work through a plan, which should include the basic matters of the project. Mainly, said plan includes four elements: First: to determine the aims. Aims should be clear, logical and reasonable. For example, I say that I want to achieve sales worth KD 10 thousand. Second: resources which help to achieve the aim should be determined, such as the budget, raw materials and manpower. Third: determine the mechanisms of execution through which the resources shall be used to achieve the aims which have been set. Fourth: determine the time frame through which the plan shall be executed.” BM4

On the other hand, some bankers suggested that they expected the business plan to address: economic feasibility and plans for the future; projected sales during the coming period; assessments of validity of the provided data; most important future and existing projects, if any; and methods of payment and expected payments. Others

said that they expected to see in the business plan the number of employees, their salaries and titles, and the sources of raw materials (see Table 50).

Table 50 Summary of what banks expect to see in a business plan

Answer options	Response count
General information about the company.	4
The number or workers.	2
The reason for the finance.	1
Future projects.	1
Sources of raw materials.	1
A time plan.	1

Interviewees were asked about the importance of the audited finance statement, approved by an external auditor, in the loan process. The following question was asked:

What do you think is the importance of financial statements approved by an external auditor in the approval of loans provision?

All of the respondents made the same comment on this point. All said that a financial statement, checked by an external auditor, was vital for bank approval. One of the respondents indicated:

“In my opinion, the provision of audited financial statements from an external office is essential and a prerequisite to the customer receiving the finance. The customer should provide the audited balance sheets for the last three years.” BM2

In summary, bank managers agree with the SMEs that a financial statement approved by an external auditor is important in the granting of loans by banks.

Furthermore, the respondents were asked about the importance of the reputation of the borrower, their family background, and personal relationships, when applying for a loan from the bank. The following questions were asked:

Some researchers suggest that the reputation of the borrower, their family background, and personal relationships, could affect the decision making in relation to the provision of the loan. What are your opinions on this statement and why? And do you have any experience of this?

One of the participants believed that family background and personal relationships could have an effect (see Table 51). He said:

“No one can deny that the name of the person plays a vital role in the decision making, and given our nature as human beings we always link between names; for example, when we hear of someone named Faisal Al-Munifi we believe they are close to Manaf Al-Munifi, as linking between names is a part of human nature.

As for personal relationships, the bank always looks for the public interest. For example, there are some customers in the bank who are VIP customers and have deposits of up to two million dinars or more. If one of their sons comes to the bank and needs to start up a project and wants finance of KD 50,000, in that case, we take into account the interest of the bank and the profits generated by the bank from the deposits that are in the name of the father of this person. These are more than the finance required for the small project, but the bank should keep a balance between these things and not expand them too much.” BM1

Two of the respondents believed that family background and personal relationships could have an effect, but that there are other things that are more important (see Table 51). The bank managers indicated that they believed that the borrower’s credit history, financial statements, reputation, attitudes, and collateral were important to the bank’s financial decision, in addition to family background and personal relationships.

One respondent, however, believed that family background and personal relationship did not have an effect (see Table 51).

“I think that the reputation of the person, the family background, and personal relationships are not an influencing factor. What is important is the character of the customer and whether he is honest with the bank, provides true data, is well versed in the project and understands all aspects of it. All these things should be taken into account, but the person’s name is not everything.” BM3

Table 51 Bankers’ opinions on the reputation of the borrower, their family background, and personal relationships in relation to loan approval

Answer options	Response count
Believe that family background and personal relationships could have an effect, but there are other things that are more important.	2
Believe that family background and personal relationships could have an effect.	1
Believe that family background and personal relationships do not have an effect.	1

It can be concluded that bank managers agree with the SMEs that family background and personal relations can be influential. However, some bank managers were careful in their answers; they believe that other things are more important.

Participants were asked whether they agreed that the government should intervene to support the SME sector, and if so, what role it should play. The following questions were asked:

Do you agree that the government should intervene to promote awareness of the importance of SMEs? What should be the government's role in supporting and promoting the SME sector in Kuwait?

All the bank managers were agreed that the government should intervene to promote awareness of the importance of SMEs. One of them said:

“Yes. Of course, the government should be the key player in this field, and the required role is that they determine the needs of small projects in the State. Such demands may not only be limited to financing because the owner may be able to provide the required capital at the start.” BM2

Another believed that the Kuwaiti government has contributed towards and assisted SMEs but in the wrong way. He stated:

“I think that the Kuwaiti government has contributed and assisted in supporting SMEs, but I see that it contributes in the wrong way because government bureaucracy in granting finance is not suited to the owners of SMEs. I think that the owners of SEs, especially those who have a new idea for starting a project, are always vivacious and enthusiastic; hardly any of them are lazy, they are always energetic. When these kinds of people go to the government sector which funds SEs they feel frustrated due to government bureaucracy and because of the number and difficulty of applications required by the government funding agencies to approve their finance. The government sector is not fit to grant finance because it is not its line of business as funding is the industry of banks and the foundations upon which funding is based are tailored for banks. On that basis, I believe that the best way to assist the SME sector to obtain financing is that the government has to guarantee funds to the owners of SMEs through the banks, and banks, in turn, grant financing to SMEs. The government is required only to share with banks in a proportion, and not all, of the risks.” BM1

In relation to the question about government intervention, the bankers were also asked about the role government should play in supporting and promoting the SME sector in Kuwait. Three of the respondents believed it should smooth its procedures in terms of

licenses and official approvals and some said that government should provide advice and tips (see Table 52).

One of the participants suggested that government should intervene to allocate workplaces for the owners of small projects, such as stores and offices. They should also intervene to refresh the small projects sector by providing benefits to the owners of small projects such as fee exemption and one-stop finalization of all procedures for licensing (see Table 52).

On the other hand, one of the respondents suggested that the government should intervene to support the local SMEs (see Table 52). One manager said:

“The small projects in Kuwait are of two types. First type: the project of a young Kuwaiti male or female, where the idea is local, not imported. Such projects might be foodstuffs, industrial, clothes, furniture, jewellery or design related. Second type: one which has a foreign extension; i.e. out of the country. So the shop owner only has an agency from abroad and opens the shop in Kuwait. Both types are considered small projects depending on the manpower and capital, but what is the difference between the first and the second one? The first one is a local project and the idea of a Kuwaiti young man. This is 100% a Kuwaiti project which depends on Kuwaiti resources and local materials. No funds go out of Kuwait. On the contrary, such a project may be expanded and may extend out of Kuwait to the Gulf States. There are several examples of this. On the other hand, the second type is an imported idea. It is a small project as well but it may compete with a local project, and this is an important point. I believe that the government should put a limit on the number of agencies.” BM4

Some interviewees, who work in Islamic banking, thought that the Central Bank of Kuwait should increase the discount rate to encourage the banks to fund SMEs. One of them commented:

“From my point of view, the solution is to increase the discount rate in the CBK (interest rate), as in the wake of the global economic crisis which affected Kuwait’s economy, CBK has reduced the discount ratio on debts to 2% approximately so as to encourage traders to take loans from banks which impacted upon SMEs, where banks after reducing the discount ratio on debts were not interested in financing SMEs because their risks are very high and the profitability ratio of banks is very slight. Thus, the solution, in my opinion, is that the CBK should increase the discount ratio in order to encourage banks to fund SMEs.” BM2

This apparently shows a link between high discount rate and high risk. Whenever the discount rate is high this encourages the banks to take high-risk projects, for example SMEs. Whenever the discount rate is low, the banks refuse to finance SMEs because of the high risk involved.

Table 52 Summary of the government’s role in supporting and promoting the SME sector in Kuwait

Answer options	Response count
Believe the government should provide land.	3
Believe the government should provide advice and tips.	3
Believe the government should smooth its procedures in terms of licenses and official approvals.	3
Believe the government should have an information bank for SMEs.	2
Believe the government should issue security certificates for SMEs to take a loan from the bank.	1
Believe the government should introduce a special law for SMEs.	1
Believe the government should offer extra help for local SMEs.	1
Believe the government should provide incubators for SMEs.	1
Believe the Central Bank of Kuwait should increase the discount rate.	1

From the above qualitative data, it was found that bank managers agreed with the SME owner-managers that the government should intervene to promote awareness of the importance of SMEs. Although the government has implemented some support for SMEs, that support is insufficient and not effectively practiced or widely used. The government support was restricted to the financing of SMEs through specialised SME financial institutions establish for that purpose. It was suggested that the government should support the SME sector by: introducing a special law for SMEs; setting up an information bank for SMEs; issuing security certificates for SMEs to enable them to take loans from the banks; providing land; providing advice and tips; smoothing government procedures in terms of licenses and official approvals; providing incubators for SMEs; and also that the Central Bank of Kuwait should increase the discount rate.

Respondents were asked whether they had knowledge of the Manpower and Government Restructuring Programme (MGRP), and what their opinion was of this programme. The following question was asked.

Do you have knowledge of the Manpower and Government Restructuring Programme (MGRP)? If so what is your opinion of this program?

All of the bank managers had knowledge of the Manpower and Government Restructuring Program. Three of the respondents agreed that the MGRP had a positive impact for SMEs in Kuwait (see Table 53). One stated:

“The Manpower and Government Restructuring Program has contributed to the support of SMEs as it provides courses, exhibitions for entrepreneurs of SEs and material help, but I think it is necessary that the material assistance provided to the entrepreneur should include greater benefits than those extended to workers in the private sector.” BM3

One of the respondents, however, believed that there was no relationship between the program and the SMEs (see Table 53). He indicated that:

“This concerns most workers in the private sector, such as workers in banks and large companies, not only the owners of small projects.” BM4

Table 53 Bankers’ opinions of the MGRP

Answer options	Response count
Have a positive impact.	3
Have no impact.	1

It can be concluded that the bank managers agreed with the SME owner-managers that the Manpower and Government Restructuring Programme has a positive impact on the SME sector through the monthly salary.

Moreover, the respondents were asked if they were aware of the fund that the Kuwaiti government had recently established, and how they thought the fund should be used. The following questions were asked:

The Kuwaiti government established a fund with capital of KD 2 billion to support the SME sector. Were you aware of this? How do you think this should be used?

Three of the respondents had knowledge of the fund but one did not (see Table 45).

Table 54 Summary of the bankers' knowledge of the government fund to support SMEs

Answer options	Response count
Yes I do have knowledge of the fund.	3
No I don't have knowledge of the fund.	1

In relation to the question about the government fund the bank managers were asked how they thought this should be used.

Three out of four of the respondents agreed that the government should not finance the SMEs using the fund itself. The interviewee from the specialised SME financial institutions suggested that the government should use existing institutions, such as the Industrial Bank and the Kuwait Company for Financing SMEs, whereas the bank manager who works in the Islamic bank suggested that the fund should use the banking sector to finance the SMEs (see table 55). One of the bank managers from the Islamic commercial bank stated:

“In my opinion, this project will fail, as have previous government projects. As evidence of that, go to the existing government projects, such as the Industrial Bank’s portfolio of small enterprises, and ask them for the statistics on the number of projects that have been funded. From my point of view, that support should be through banks rather than through government agencies.” BM1

Two interviewees from specialised SME financial institutions suggested that the government should support the existing institutions and not create a new one (see Table 55). One of the respondents said:

“I think there is repetition. We have in Kuwaiti companies and banks to support the small projects, and such institutions are performing the required role of supporting the small and medium projects. The government should have developed the existing institutions by increasing their capital instead of creating new entities, which will involve additional time and costs. Rather, we have existing entities, which have experience.” BM4

From the above qualitative results, it is clear that none of the bank managers agreed that the fund should finance the SMEs by itself. The bankers suggested that the finance for SMEs should come either from the banking sector or from existing specialised SME financial institutions.

Table 55 Bankers' opinion on how the fund money should be used

Answer options	Response count
Administered by the banking sector.	2
Administered by existing specialised SME financial institutions.	2

Furthermore, from the analysis, the bank managers suggested that the government should not finance the SMEs from the fund itself, but that the fund should finance from the banks and the existing institutions that support SMEs.

The respondents were asked for their opinions on what are the greatest challenges to SMEs in Kuwait, and whether they were able to suggest any solutions. The following questions were asked:

What are the most important challenges that face SMEs in Kuwait? What are the methods of overcoming these?

Three of the respondents agreed that high rent was one of the obstacles facing SMEs in Kuwait. Furthermore, the bank managers believed that the main challenges were difficulties with, and the slowness of, government procedures; for example, difficulties in issuing the necessary licenses for a project. Sharp shortages in manpower were another issue, because the authorities could not agree on the manpower required for a particular project. One of the interviewees also suggested that a notable deficit facing SMEs in Kuwait is the lack of relevant information concerning the establishment of projects. Many customers do not know where to start and do not know about licensing or the procedures required for the project they wish to initiate (see Table 56).

Further challenges were identified by a banker, who said:

“One of the main difficulties faced by the bank is that the customer does not have guarantees and also that the finance applicant doesn't run the project by himself but empowers the work to a foreign partner, and this for the bank is not a small project where the bank requires that the owner of the project should be a Kuwaiti National. Another of the difficulties also is that many companies do not have budgets approved by external offices. In my opinion, the Ministry of Commerce should audit small businesses and companies should make audited annual budgets from external offices.” BM2

Table 56 What are the most important challenges faced by SMEs in Kuwait?

Answer options	Response count
High rents.	3
Lack of land.	2
Cannot bringin labour from outside the country.	2
Lack of information.	1
Government workers cannot obtain a license.	1
Competition.	1
Shortage of workers.	1

It can be concluded that the bank managers agreed with the SME owner-managers that the SME sector in Kuwait faces many challenges which can be classified into four sections: first, the law regulating the SME sector in Kuwait; second, government related challenges; third, SME owner-managers; and fourth, the Kuwaiti business environment.

7.4 Kuwaiti Islamic finance institutions

The bank managers were asked about: the difficulties facing banks when financing SMEs; the types of financial products offered to SMEs; the banks' requirements when applying for finance; the support offered to SMEs and various other things related to the second question of the study.

Respondents were asked about the difficulties faced by the financial institutions when financing SMEs, as follows:

What are the most important difficulties facing your institution in the field of financing SMEs? How do you deal with these difficulties?

Three of the respondents suggested that the lack of management skills amongst SME owner-managers was one of the difficulties facing financial institutions (see Table 57); one of them summarises the issues and explained why the financial institutions will either refuse or accept an opportunity to finance an SME. He said:

“Of course, the reasons for accepting a project depend on certain criteria, which I can summarize in two points:

First: matters related to the project. Sometimes the idea of the project and its execution in the Kuwaiti market is difficult due to competitors. Sometimes the

laws do not allow the activity or the project may be rejected due to obstacles in raw materials provision.

Second: criteria related to the project owner. Sometimes a person applies and we should look at whether they have adequate qualifications with which to practice the role of owner of a small project. Sometimes the project is rejected, which is better for the owner so that he can avoid the loss of capital.” BM4

Two of the interviewees mentioned that some SMEs cannot offer collateral.

One of them said:

“One of the main difficulties faced by the bank is when the customer does not have collateral.” BM2

Furthermore, two of the respondents suggested that the banks have difficulties dealing with customers who do not provide information in a timely manner. One of them stated:

“In my opinion, the customer who initiates the relationship by giving information about the project - for me I do not have a problem with this type of customer, especially those who give information that should be available to the bank. There is no problem with this customer, even if he requests to delay the payment of one of the instalments. But the customer who takes the funding and we do not hold any information about him or his project, where the bank is compelled to search for him and try to call him and follow him up, and the bank has insufficient information about him and the project - I think this type of customer is the main kind of difficulty which faces the bank.” BM1

The bank managers also suggested some other difficulties that banks face when financing SMEs, such as: lending to SMEs is too risky; there is no government support for SMEs for government contracts and no support for export; there is no legislation to support SMEs; and projects may not be economically feasible (see Table 57).

Table 57 What are the most important difficulties facing your institution in the field of financing SMEs

Answer options	Response count
Lack of management skills.	3
Some are unable to provide collateral.	2
Lending to SMEs is too risky.	2
No legislation to support SMEs.	2
Failure to submit financial statements and other information on time.	2
The lack of economic feasibility of the project.	2
Intense competition.	2
No government support for SMEs for government contracts and no support for exports.	1
Some do not have financial statements approved by external auditors.	1

In summary, according to the bank managers, the most important difficulties that banks face when financing SMEs can be divided into three sections:

- 1.) Problems related to the SME owner-managers– for example, SME owner-managers cannot provide collateral, SME owner-managers' failure to submit financial statements and other information on time, and many SMEs owner-managers suffer from a lack of management skills;
- 2.) Problems related to the project – for example, lending to SMEs is too risky;
- 3.) Problems related to the government and the law – for example, there is no government support for SMEs for government contracts and no support for exports.

This result supports the claim by Datta (2010), and Al Hamami and Diyab (2005), who suggested that formal creditors are usually loath to lend to SMEs because the banks consider lending to small businesses to be riskier. This is because SMEs fail to authenticate information (such as accounting records and financial statements) that reflects on the efficiency and capability of the project, and also because SMEs are unable to provide collateral for loans they are applying for from the banks.

The respondents were then asked whether they were satisfied with the financial resources available to SMEs:

Are you satisfied with the financial resources available in your institution to fund SMEs in Kuwait? Why?

Three of the respondents felt that the finance available to the SMEs was sufficient (see Table 58). One said:

“Yes, I think that the available resources are sufficient, due to several institutions which support small projects. Sources include bank financing, self-financing and money from relatives. Certain investment companies are financing small projects, and also there is financing by specialised SME financial institutions such as the Industrial Bank, which finances on a Murabaha basis. Other companies include KEPCO, which has a national fund for supporting young men through collaboration.” BM4

One of the respondents, however, suggested that the available resources were insufficient (see Table 58).

Table 58 Are you satisfied with the financial resources available in your institution to fund SMEs in Kuwait?

Answer options	Response count
Yes.	3
No.	1

From the answers of the SME owner-managers and bank managers, they are not agreed on this point because the SMEs see that the available sources are inadequate, whereas the bank managers see that the available sources are sufficient.

The participants were asked what types of financial product were available to SMEs:

What types of ‘financial products’ are offered by your institution to SMEs?

Leasing and *Murabaha* are the products most used to finance SMEs in Kuwait (see Table 59). Only one bank manager stated that his bank used *musharaka* to finance SMEs. Another indicated that the bank used Qard hassan as an appendix to the contract (see Table 59).

Table 59 Types of financial product for SMEs

Answer options	Response count
Leasing	3
<i>Murabaha</i>	3
Tawaroq	2
Letter of Credit	2
<i>musharaka</i>	1
Qard Hassan	1
<i>istisnaa</i>	1

In summary, in the opinion of the SME owner-managers and the bank managers, the *Murabaha* contract is the financial product which is most available to SMEs in Kuwait.

Respondents were asked about the financial institutions’ requirements. The following questions were asked:

What are the requirements for SMEs to obtain financing from your institution? And why?

Three of the respondents asked for the SMEs official papers (see Table 60).

Table 60 Documents required when applying for finance

Answer options	Response count
Official company papers.	3
Finance statement.	2
Business plan.	2
The owner-manager should be a Kuwaiti citizen.	2
Should have the ability to dedicate themselves full time after approval of the project.	2
The owner-manager should be more than 21 years old.	1
Should have secured a workplace for the project.	1

In summary, the bank managers agreed with the SME owner-managers that official company papers were the items most required for obtaining finance in Kuwait, followed by a business plan and a financial statement.

The managers were asked about compatible financial institutions for financing SMEs. The following questions were asked:

Which financial institution is more compatible in terms of using Islamic finance instruments as a model for SMEs, and what are the types of support given to SME project owners?

Two suggested that the Kuwait Industrial Bank was the most compatible (see Table 61), and one, the Kuwaiti Company for SMEs (see Table 61). The latter said:

“In my opinion, the best entity for financing small projects is the Kuwaiti Company for Financing of Small Projects, because it is specialized in this field and a specialised SME financial institutions affiliated to public authorities for investment only, and working in the financing of small projects to support young men. It also arranges certain courses, seminars and conferences in this regard. As for the number of projects financed by the Kuwaiti Company, the company financed many projects in terms of value and support; the financing is one of the highest. The Kuwaiti Company finances all fields, such as crafts and industrial professions, whereas the Industrial Bank’s fund is only concerned with the financing of industrial projects. The Kuwaiti Company has sufficient qualified employees to follow up the projects after they receive financing.” BM4

However, although the respondent indicated that the Kuwaiti Company for SMEs was the most compatible, he felt there was one negative point in their method of finance:

“In my opinion there are certain difficulties in the method of financing because the company uses only the Collaboration Tendering Contract. If it used more than one contract for financing it would be better.” BM1

Table 61 Which financial institution is more compatible in terms of using Islamic finance instruments as a model for SMEs?

Answer options	Response count
Kuwait Industrial Bank.	2
Kuwaiti Company for SMEs.	1
Kuwait finance House.	1

Related to the question about compatible financial institutions the respondents were also asked about the type of support that they offer to SMEs. Three of the respondents offer diversity in the contracts that they use. Furthermore, BM3 and BM4 commented that the bank provide tainting for the SME owner-managers (see Table 62), whereas, BM1 and BM2 indicated that their banks gave advice and guidance to SME owner-managers (see Table 62).

Table 62 What are the types of support given to SME project owners?

Answer options	Response count
Provide finance.	4
Have a diversity of contracts in use.	3
Provide training.	2
Provide advice and guidance.	2
A multiplicity of activities funded.	2

In summary, the bank managers agreed with the SME owner-managers that the Kuwait Industrial Bank was compatible in terms of using Islamic finance instruments, followed by the Kuwait Company for SMEs and the Kuwait Finance House.

The participants were asked about the idea of developing specific institutions for SMEs. The following question was asked:

What do you think of the idea of developing a specific financing institution for SMEs?

Two of the respondents believed that it would be a good idea to develop a specific institution for SMEs in Kuwait (see Table 63). One of them said:

“I think that it’s a good idea, but there should be variety in instruments of financing. The feature that we have currently in Kuwait is the availability of more than one financier, each of which has its own method and style of funding, and if there was one body which used all the instruments of funding and was a financier and a licensing body at the same time, then it would be an excellent idea.” BM3

Two of the respondents, however, did not believe that it would be a good idea to develop a specific institution for SMEs (see Table 63).

Table 63 Opinions on developing a specific financing institution for

Answer options	Response count
Believe that it would be a good idea to develop a specific institution for SMEs.	2
Do not believe that it would be a good idea to develop a specific institution for SMEs.	2

The bankers were asked their opinion about whether the Kuwaiti finance sector was capable of helping more SMEs. The following questions were asked:

Do you think the environment of the Kuwaiti finance sector is capable of absorbing finance for more SMEs and guiding them towards a long and successful life? Why?

Three of the respondents believed that the environment of the Kuwaiti finance sector was capable of successfully absorbing SMEs over the long term (see Table 64). One of them said:

“In the current situation, yes we have in Kuwait two entities for financing and providing services to small projects: the Industrial Bank and the Kuwaiti Company for Small Projects.” BM4

One did not agree that the environment of the Kuwaiti finance sector was capable of successfully absorbing SMEs over the long term (see Table 64).

“In my opinion, the finance sector in Kuwait is unable to accommodate more projects because the market is currently teeming with them, and there is stiff competition and everybody wants to become a trader and wants to establish an SE. As can be observed now, in Kuwait there is a proliferation of SEs, especially working in-house without licenses and supervision from governmental bodies.” BM2

Table 64 Do you think the environment of the Kuwaiti finance sector is capable of absorbing finance for more SMEs and guiding them to a long and successful life?

Answer options	Response count
Believe that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life.	3
Believe that the environment of the Kuwaiti finance sector is not capable of absorbing SMEs and guiding them towards a long and successful life.	1

It can be concluded, from the bank managers comment that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life.

7.5 Islamic finance and further support for SMEs in Kuwait

The bank managers were asked their opinions about the new Islamic legislation, the Islamic finance instruments, using Leasing (hire-purchase) and *musharaka* as a source of finance for SMEs, and their opinions of using *zakat* and *waqf* as new sources of finance, plus other questions which related to the third research question of this study.

First, the respondents were questioned about new legislation for establishing Islamic banks in Kuwait and whether this law would introduce more opportunities for SMEs. The following questions were asked:

In the light of the new Islamic legislation (Laws) for establishing new Islamic banks in Kuwait, do you think that these laws and regulations constitute an opportunity to finance SMEs in the future? Why?

All of the respondents agreed that the new Islamic legislation for establishing Islamic banks would be helpful for SMEs. One of them said:

“I think that the new laws will have an impact, especially now that KFH bank has founded a new administration to finance SMEs. I think that it will play a significant role in supporting SMEs, because there is a great demand on financing in accordance with the provisions of Islamic Sharia” BM3

In summary, the bank managers agreed with the SME owner-managers that the new laws for establishing new Islamic banks in Kuwait would not be helpful in the financing of more SMEs.

The participants were further asked their opinion about whether there were any advantages to using Islamic instruments. The following questions were asked:

Do you think that Islamic financial instruments are more suitable than commercial instruments for SMEs? Why?

Two of the respondents believed that Islamic instruments were helpful to SMEs (see Table 65); one of them said:

“Yes, Islamic financial instruments are better as they contain a hedge to the bank because Islamic banks finance the purchase of assets, as the bank knows where the money goes, unlike conventional banks which grant finance through loans in the form of cash. For example, when a customer goes to the National Bank of Kuwait and applies for finance, the bank will finance the customer and give him the loan and he will receive the money in the form of cash, but the bank does not know where this money will go and whether these funds will actually be used in the project, or will be used for something else.” BM2

On the other hand, two of the respondents felt that the Islamic instruments were only helpful from a religious point of view (see Table 65). One of them said:

“First of all, from the religious point of view, we should deal with the religiously allowed tools; as for the practical point of view, the matter is related to the procedures and policies being followed by the financing institutions. If these procedures are complex and long, it will have a negative effect, if they are straightforward it will have a positive impact on small projects. On the practical side, these are just procedures, if the procedures are applied wrongly it will create a difficult situation but if they serve the small projects, the matter will be simple, irrespective of any entity.” BM4

Table 65 Bankers' opinions of the Islamic finance instruments

Answer options	Response count
Believe that Islamic instruments are more suitable than commercial instruments.	2
Believe that Islamic instruments are more suitable from a religious point of view.	2

In summary, it can be concluded that, from the bank managers' and SME owner-managers' points of view, the Islamic instruments are more suitable than commercial instruments.

Then the respondents were asked about their opinions on leasing in relation to SME finance. The following questions were asked:

Today many Islamic banks use leasing (hire-purchase) as a source of finance. What do you think about leasing as a new source of finance to SMEs in Kuwait? Do you believe it will be helpful? What are the disadvantages of leasing?

The majority of the respondents agreed that leasing is helpful for SMEs. One of them said:

"Ijara lending with ownership is one of the preferred contracts, but the problem is that the bank should bear the expenses of depreciation until the expiry of the contract." BM3

Some of the bank managers, however, suggested some disadvantages of leasing contracts, with one commenting as follows:

"I think it is a successful product, but the problem with Ijara is it should be on the assets, and some assets are preferable; those in which the name is clear, such as cars and property, where the proportion of risk is small for the bank. Because the leased assets are in the name of the bank, the bank is able to control them at any time if the customer defaults on a payment. But there are some assets in which the name is not clear, such as kitchen appliances. These tools cannot be registered in the name of the bank,." BM1

In the light of the above analysis it was found that the bank managers agree with the SME owner-managers that leasing (hire-purchase) is useful for financing SMEs in Kuwait.

The bankers were asked about their opinion of *musharaka* in relation to SME financing. The following questions were asked:

What do you think of musharaka as a source of finance? What would you say are the advantages/disadvantages of musharaka?

Three of the respondents believed that *musharaka* was a useful instrument for SMEs (see Table 66), one of them saying:

“First, the merit of collaboration contracts is that they are Islamic contracts. According to this form of contract, the owner shall be a partner with the financing entity through the collaboration contract, and in the case where the project makes a loss, the full loss shall not fall on the project owner, as is the case in normal financing or bank financing. Instead, the financing institution bears part of the loss and the project owner bears the other part which minimizes the risks, particularly for newly started projects or small projects under creation. Most of the small projects prefer collaboration in order to feel safe and to avoid bearing the full risks alone, but the large projects prefer financing contracts.” BM4

The respondent who felt that *musharaka* was not useful for SMEs (see Table 66) said:

“I do not think that *musharaka* is a financing product, but it is an investment product in which the proportion of risk is very high. Today, we are striving in KFH to be a bank not a company, as the existing tendency is to reduce risks and to use financing instruments not investment instruments. KFH can set up an investment company through which it can use *musharaka* contracts, but in my view, the application of *musharaka* is very difficult for banks, because it requires periodic follow-up as it forms a burden on the bank and requires a large number of employees.” BM1.

Table 66 Bankers’ opinions of *musharaka* as a source of finance for SMEs

Answer options	Response count
Believe that <i>musharaka</i> is useful for financing SMEs.	3
Believe that <i>musharaka</i> is not useful for financing SMEs.	1

Based upon the responses of both bank managers and SME owner-managers, *musharaka* is a useful source of finance for SMEs in Kuwait.

The bankers were asked the following questions to find out their opinions on using *zakat* and charity money as new sources of finance for SMEs:

As you know, the zakat House in Kuwait is considered to be one of the most important organizations in the Islamic world. What do you think about zakat and charity as a new source of finance to SMEs in Kuwait? Do you believe it will be

helpful and in what way? What would you say about the advantages/disadvantages of zakat?

One participant suggested that it was a good idea to use *zakat* but that this should be through the banking sector (see Table 67). He stated:

“I prefer that each competent body should be attentive to the role assigned to it. For example, *zakat* committees were formed to collect and distribute *zakat*, and not to support and incorporate SEs. There are authorities in the State that were established to support and incorporate SEs, whereas the role of the *zakat* House and other committees is to pay attention to the target for which they were established. But the *zakat* House or other committees could put an amount forward for the banks and the bank could manage the portfolio and finances for some people who deserve *zakat*.” BM3

Another of the respondents did not know whether Islamic law would allow this.

Table 67 Bankers’ opinions of using *zakat* and charity as a new source of finance for SMEs in Kuwait

Answer options	Response count
Believed that using <i>zakat</i> and charity would not be helpful.	1
Did not know whether Islamic law would allow this.	1

From the above qualitative data it was found that the bank managers had little to say on the idea of using *zakat* and charity as new sources of finance for SMEs. Although one of the bank managers believed that using *zakat* and charity would not be helpful, the other respondents either did not answer or they did not know whether Islamic law would allow the use of *zakat* to finance SMEs. The SME owner-managers did not agree with the bank managers on this point; the SME owner-managers believed that using *zakat* and charity would be a helpful means of financing more Kuwaiti SMEs.

Respondents were asked about using *waqf* as a new source for financing SMEs, as follows:

What do you think of waqf as a new source of finance for SMEs in Kuwait? Do you believe that it would be helpful and in what way? What are your opinions on the advantages/disadvantages of waqf?

One respondent believed that it would be helpful to use *waqf* as a new source of finance (see Table 68), but another did not know whether Islamic law allowed this.

Table 68 Bankers' opinions of *waqf* as a new source of finance for SMEs in Kuwait

Answer options	Response count
Believe that it would be helpful to use <i>waqf</i> as a new source of finance for SMEs.	1
Do not know whether this would be allowed by Islamic law.	1

In the light of the above analysis, it can be concluded that the SME owner-managers strongly agreed that using *waqf* as a new source of finance for SMEs would be helpful, whereas the bank managers did not produce a clear result. Only one of the bank managers agreed with the SME owner-managers that using *waqf* as a new source of finance would be helpful.

The respondents were asked about their perception of using *qard hassan* as a new source for the SMEs. The following questions were asked:

Many Islamic countries, such as Saudi Arabia and the United Arab Emirates, have institutions that use *qard hassan* as sources of finance for SMEs. What do you think about *qard hassan* as a new source of finance for SMEs in Kuwait? Do you believe that it would be helpful and in what way? What would you say about the advantages/disadvantages of *qard hassan*?

Three participants agreed that the use of *qard hassan* to support the SME sector was a good idea (see Table 69), and one of them said:

“A good principle but my problem with the public sector or charity committees that help and support SMEs is that these institutions do not have the ability to follow-up, train and mentor as the issue is not just funding. One of the most successful civil institutions that I have heard about is the United Nations Development Program in Bahrain. I have heard stories of great success in this institution with a lot of small entrepreneurs because there was extensive training for SE entrepreneurs and they were providing them with offices and a place to work from. Rather, this role should be played by the government; the issue is not only one of granting finance.” BM1

Table 69 Bankers' opinions on the use of *qard hassan* as a source of finance for SMEs

Answer options	Response count
Good idea.	3
No answer.	1

It can be concluded that the bank managers agree with the SME owner-managers that it is a good idea to use *qard hassan* as a new source of finance for SMEs.

7.6 Summary

This chapter discusses the findings of four semi-structured interviews that were conducted with bank managers in Kuwait in order to reveal their opinions and perceptions of various matters related to SME finance.

The semi-structured interviews enabled an in-depth understanding of the participants' experiences, knowledge and attitudes. They also afforded an opportunity to understand several factors that influence the Islamic financing of SMEs in Kuwait from the perspective of different participants

The qualitative data analysis of the bank managers' comments provided a number of additional in-depth understandings of the research subject.

In summary, the bank managers agree with SME owner-managers that SMEs are extremely important to the Kuwaiti economy. They also agree that a significant role is played by the SMEs in relation to job creation, helping to spend money inside the country, and adding value to GDP. In addition, the banks suggested that SMEs are complementary to large businesses and will help to distribute the risk that banks face. Also it was found that there is a correlation between the government supports the banks sector and the banks supports and finance SMEs sectors. The bank managers need the government to act as guarantors for the SMEs so that banks can meet the needs of SMEs. These needs include, financing the start up of SMEs, establishing departments for SMEs, and accepting any kind of collateral.

The bank managers agree with SME owner-managers that access to finance is an obstacle to SMEs. The key reason for this obstacle is the lack of collateral. However, bank managers suggested the use of *musharaka* contracts because, in accordance with Islamic law, it is not permitted to take collateral in *musharaka*. They also suggested the use of the assets that banks will finance as collateral. In addition, the bank managers suggested alternatives for the asset collateral, such as personal guarantees, credit histories, and wired transfers to the bank for all of the income received.

The bank managers agree with SME owner-managers that business plans and finance statements approved by an external auditor are important in the granting of loans by banks.

It was found that bank managers agreed with SMEs owner-managers that family background and personal relations can be influential. However, some bank managers were careful in their answers; they believe that other things are more important such as the business plan and the financial statement.

The bank managers and SME owner-managers believed that the government should intervene to promote awareness of the importance of SMEs. Although the government has implemented some support for SMEs, that support is insufficient and not effectively practiced or widely used. The government support was restricted to the financing of SMEs through specialised SME financial institutions set up for the purpose of financing SMEs. It was suggested that the government should support the SME sector by: issuing a special law for SMEs; establishing an information bank for SMEs; issuing security certificates for SMEs to enable them to take loans from the banks; providing land; providing advice and tips; smoothing government procedures in terms of licenses and official approvals; providing incubators for SMEs; and also that the Central Bank should increase the discount rate.

It was found that bank managers agreed with the SME owner-managers that the Manpower and Government Restructuring Programme has a positive impact on the SME sector through the monthly salary.

Furthermore, from the analysis, the bank managers suggested that the government should not finance SMEs from the fund itself but the fund should finance from the banks and the existing institutions that support SMEs.

The SME sector in Kuwait faces many challenges which can be classified into four sections: first, the law regulating the SME sector; second, government related challenges; third, SME owner-managers; and fourth, the Kuwaiti business environment. The bank managers agree with SME owner-managers on this point.

The most important difficulties that banks face when financing SMEs can be divided into three sections: first, the problems related to the SME owner-managers– for example, SME owner-managers cannot provide collateral, SME owner-managers' failure to submit financial statements and other information on time, and many SMEs owner-managers suffer from a lack of management skills; second, problems related to the project – for example, lending to SMEs is too risky; third, problems related to the government and the law – for example, there is no government support for SMEs in terms of government contracts and no support for exports.

It was found that the Kuwait industrial bank was most compatible in terms of using Islamic finance instruments, followed by the Kuwait Company for SMEs, and the Kuwait Finance House Both the bank managers and the SME owner-managers were agreed on this point.

It was found that the Islamic instruments are more suitable than commercial instruments. However, the respondents from the two groups (bank managers and SME owner-managers) agreed that the new laws for establishing new Islamic banks would not be helpful in the financing of more SMEs. This is because Islamic banks in Kuwait use a kind of contract for financing SMEs that is low risk, such as *Murabaha* and *Tawaroq*, whereas, SMEs need contracts such as leasing (hire-purchase) and *musharaka*, which have been found to be useful sources of finance.

It was found that the bank managers had little to say on the idea of using *zakat*, charity and *waqf* as new sources of SME finance. On the other hand, SME owner-managers

believed that using *zakat*, charity and *waqf* would be helpful. Both groups thought that it would be a good idea to use *qard hassan* as a new source of finance.

Having looked into the bankers' perceptions of SME finance in Kuwait, the next chapter deals with the *Sharia* boards' perception of the Islamic banks.

Chapter 8 Results and analysis of Sharia board members' perceptions

8.1 Introduction

This chapter analyses the interview responses of four *Sharia* board members from the Islamic banks in Kuwait.

It was realised that there were areas of both agreement and disagreement between the *Sharia* board members; however, nearly all *Sharia* boards in Kuwait have the same attitude and vision with regard to SMEs. The open-ended questions of each interview were concerned with the same four main categories, which were discussed previously in Chapter Six. Each category covers a variety of related questions.

The four main issues that were investigated in the interviews were related to the following:

- 1 - Demographic and introductory questions.
- 2 - Factors that affect SMEs in Kuwait.
- 3 - Kuwaiti Islamic finance Institutions.
- 4- Islamic finance further support for SMEs.

8.2 Demographic and introduction question

The following table shows the type of interview participants, the name of the institution for which they work in, their current position, education, and their experience in years.

Table 70 Profile of respondents from the Sharia board managers

Respondent	Name of institution	Gender	Respondent's position	Age	Experience	Experience In this company	Education
SB1	Kuwait finance House	Male	Sharia Board	More than 40	10	10	PhD
SB2	Boubyan Bank	Male	Sharia Board	More than 40	10	7	PhD
SB3	Warba Bank	Male	Sharia Board	More than 40	15	4	PhD
SB4	Ahli United	Male	Sharia Board	More than 40	10	6	PhD

SB= Sharia board member

8.3 Factors affecting SMEs in Kuwait

This mainly concerns the first question of this study which was: What finance problems and challenges do small and medium enterprises (SMEs) encounter in Kuwait? The first questions were.

Some experts in the field of SMEs suggest that there is no official definition for SMEs in Kuwait. What would you say about the lack of an official definition? How would you define an SME?

All of the *Sharia* board members agreed that it is a problem that there is no official definition for SMEs in Kuwait. One of the respondents explained why it is that in Kuwait there is no official definition:

“In the Kuwaiti market there is no fixed standard to say that Khalid’s project is small, Ahmad’s project is medium and Mohammad’s project is a large one; I think this is a difficult aspect. The thing which confirms my argument is that there is no law for small enterprises and if there were certain laws we could define the small and medium projects.” SB2

Discussion continued with the *Sharia* board members about how the respondents would define SMEs in Kuwait. Two of them suggested using a definition that is based on capital value (see Table 71). One of them commented:

“The best definition, in my view, is capital value. Whenever it is less than KD 100,000 it is considered a small project. Capital value determines the company’s activity, in addition to the expansion. I think that capital may be one of the indicators which define small, medium or large projects.” SB4

One of the *Sharia* board members also further suggested using capital value to define SMEs in Kuwait:

“I thought of a definition. However, I did not reach a suitable definition distinguishing SMEs. There should be an administrative distinction; such as SMEs are those whose capital doesn’t exceed KD 5,000. This will be reflected clearly in the kind of guarantees required by the bank and the kind of investment accepted by the bank.” SB3

It was found in the literature that some institutions in Kuwait use the capital standard to define SMEs; for example, the General Industry Board and the Trade and Industry Ministry describe a small project as one with capital between 50,000 and 250,000 Kuwaiti Dinars (KWD) (1 KWD = 2.67 GDP). Meanwhile, the Kuwaiti Industrial Bank, classifies a small project as one whose capital does not exceed 500,000 Dinars (Alhajeri, 2012).

On the other hand, one of the respondents suggested the number of employed should be used as a standard for defining SMEs (see Table 71). One participant stated

“The size of the manpower is also an indication of the size of the company. When I have a company employing 1,000 employees, this is not a small company but a large one; when I have one or two employees, I may say that this company is of small or medium activity, according to the manpower. This is another indicator.”SB4

The above quotes supported claims by Alhajeri (2012), who noted that some institutions in Kuwait use the employee numbers standard, such as the Kuwait Chamber of Commerce and Industry, which defines small projects as those which employ less than 10 workers.

One of the respondents further articulated the issue of defining SMEs according to the number of the owners. The respondents indicated that SMEs is the individual enterprises that manage the projects whereas a large enterprise is the projects that involve more than one partner. The respondent stated:

“In my view, the proper definition in Kuwait for the small enterprises is that: the Individual enterprises, because large enterprises involve more than one partner.” SB2

One of the *Sharia* board member suggested using profitability as a standard for defining SMEs in Kuwait:

“Also profitability is an indicator of a company’s size. When the company achieves KD 100 million as profit, we cannot say that it is a small company, whereas if it achieves KD 50 or 60, yes I can say it is a small or medium sized company.” SM4

Table 71 Summary of how the Sharia board members define SMEs

Answer options	Response count
Definition based on value capital.	2
Definition based on employment standard.	1
Definition based on the number of the ownership.	1
Definition based on profitability.	1

From the above qualitative data it is clear that the *Sharia* board members do not agree on the definition. Also, it is clear that there are no official definitions in Kuwait, and this finding is supported by the claim by Alhajeri (2012), which is reported in the literature review. Although Kuwait has many organizations that support SMEs, there is no agreed definition for such an enterprise. Some organizations use the employee numbers standard and some use the capital standard while others use a combination of the two to define SMEs.

In further discussion with the *Sharia* board members they were asked the following question about the importance of the SMEs in Kuwait’s economy:

In your opinion, how important are SMEs to the development of the Kuwaiti economy?

It was noted that all the *Sharia* board members believed that SMEs are extremely important to Kuwait’s economy. One of the respondents commented:

“On a worldwide level, according to the seminars which I have attended, the main drivers in an economy are the small and medium sized projects, not the large ones. They are the driving force of the economy which may create real work chances.” SB4

Another *Sharia* board member, who claimed that all the successful economies are based on SMEs, further reiterated the point. The respondent stated:

“All successful economies of the world, such as the Japanese, German, US, and Chinese economies, were based on small enterprises. For example, the Airbus Company in Germany - is it considered a giant company or a small company? For sure it is a giant company, but they are working to divide the activities, so each activity has a small independent company. For example, there is an independent company for tyres, another company for aircraft furnishing, another one for engines, and finally there is a company which combines all such companies but all companies are classified as small and medium according to the size of manpower. Certain companies employ 100 workers, others 50 workers.” SB2

Some *Sharia* board members summarised why SMEs are important for the Kuwaiti economy in general, and others pointed out their importance for Islamic finance theory. Almost all respondents stated that SMEs are important because they add value to GDP (see Table 72).

Two of the respondents believed that SMEs are sources for job creation (see Table 72). One of them said:

“As an example, two weeks ago I was in a meeting in Abu Dhabi, and the Governor of the UAE Central Bank was there in addition to the whole team of the Central Bank. The aim of the meeting was to discuss how we could finance the small and medium projects. The Governor of the UAE Central Bank encourages banks to undertake such financing because small and medium size projects are those which create work chances in the Arab world and also in the Arabian Gulf. The Governor of the UAE Central Bank also stated that small and medium size projects are focusing significantly on production. They are free from mediation and biased treatment, and the project owner employs only the number of employees he needs.” SB4

From the research point of view the most important role for the SMEs in Kuwait is to provide jobs for Kuwaitis because many people in Kuwait depend on the government sector. The Global (2011) report supported this point of view, showing that the government employs most of the Kuwaiti workforce, as 79% work in the public sector. There were a total of 392,438 employees in the public sector as of June 2010, of whom 70% were Kuwaiti. On the other hand, there were a total of 1.8 million non-Kuwaiti employees, who accounted for 84% of the total workforce; more than 93% of the non-Kuwaiti workforces were employed in the private sector.

In further, more in-depth discussion with *Sharia* board members, one of them claimed that SMEs are perfectly suited to Islamic finance theory (see Table 72):

“You know that the economic thinking in Islam depends mainly on the gathering of work and money, money and money, or work and work. These three elements achieve the most important factor, to exchange wealth among

peoples. When the wealth transfers among people normally, it will transfer services, fulfil wishes and meet needs.” SB3

Table 72 Summary of the importance of SMEs for Sharia board members

Answer options	Response count
Believe that SMEs add value to GDP.	4
Believe that SMEs are sources of job creation.	2
Believe that SMEs are perfectly suited to Islamic finance theory.	1

The respondents were asked about the changes that could be made to banking credit policy to support SMEs. The following question was asked.

In your opinion, what are the things that could be changed in banking credit policy to aid the development of Kuwait’s SME sector?

Two of the respondents believed that banking regulation should change (see Table 73). One of them said:

“Of course, in Kuwait we have experience of the Company for Small Projects, founded by the government. But there was a problem with bureaucracy, therefore people declined not to apply for it due to the many demands they were required to meet in order to be granted finance..” SB4

On the other hand, one of the *Sharia* board members agreed with the idea that was suggested by the bank managers that the government should act as guarantor to the SMEs by issuing security certificates for the banks. The respondent said:

“In fact, the banks may carry out the financing role and the State may guarantee the financing granted by the banks to the small and medium projects. Such State guarantees should encourage banks to minimize the required guarantees against the owners of the small and medium size projects, and the guarantees will not be costly to the government due to State sovereignty.” SB4

One of the participants claimed that the Islamic banks nowadays do not comply with the theory of Islamic finance:

“In my opinion, the Islamic banks should apply the theory of Islamic economy in which the labour takes part with money. Islamic banks should be liberated from the complexity of the traditional systems and enter into the real economy. Today most of the Islamic banks are looking for the product of least risk and fast profits, and to finance the short term products, avoiding long term financing.” SB2

This finding supported claims by Hassan and Mahlkecht (2011) who indicate that *Sharia* objectives give important value to finance, banking, and transactions. The implementation of *maqasid al Sharia* will improve the performance of finance and trade and instil justice in the business community and society at large. Furthermore, the achievement of the objectives of Islamic law with regard to commercial transactions creates happiness and satisfaction and meets the economic needs of society.

Table 73 Sharia board members' opinions on the things that could change in banking credit policy to aid the development of Kuwait's SME sector

Answer options	Response count
Regulation issues.	2
The government should act as guarantor for the SMEs by issuing security certificates to the banks.	1
Believe that Islamic banks do not follow the theory of Islamic finance.	1

The respondents were next asked about the obstacles that face SMEs when they access finance, and whether the *Sharia* board members had a solution to offer. The following questions were asked.

Research shows that one of the obstacles facing SMEs in Kuwait is access to funding. What do you suggest in order to tackle this problem within the permissibility of Islamic financial law?

Two of the *Sharia* board members believed that access to finance for SMEs in Kuwait was an obstacle to their development (see Table 74). One of them did not believe that this was the case.

Table 74 The Sharia board members' opinions on access to finance for SMEs

Answer options	Response count
Access to finance is an obstacle.	2
Access to finance is not an obstacle.	1

The *Sharia* board members were asked if they had a solution to the problem posed by the obstacles to finance, which would be permissible under Islamic financial law. Two of the *Sharia* board members believed the government should issue security certificates

so that SMEs could obtain finance from the banks (see Table 75). One of the respondents said:

“Of course, the State introduced solutions such as the Portfolio of the Industrial Bank for the financing of small industrial projects, not the large ones. This is a good procedure and the capital of the said Portfolio was increased, which is evidence that people accepted it. The State should focus more on this aspect and encourage people with the foundation of small projects. This is very important. The State also should increase such portfolios in addition to one to support the crafts, agricultural and education sectors.” SB4

One of the *Sharia* board members suggested that the banks should use the consolidated finance through funds; the respondent stated:

“I haven’t reviewed the difficulties facing SMEs which are mentioned in the research. Therefore, I have the opinion that the best method of financing SMEs is the consolidated finance through funds and portfolios because it is difficult to finance individually, because if I want to deal with a big category, then I need a highly capital adequacy which can’t be achieved without consolidated capital.” SB3

Table 75 Summary of approaches to removing the obstacles to finance for SMEs

Answer options	Response count
The government should issue security certificates for SMEs so that they can obtain finance from banks.	2
Consolidated finance through funds and portfolios because it is difficult to finance SMEs individually.	1

It was realized from analysis of the three groups (the SME owner-managers, bank managers, and the *Sharia* board members) that, in Kuwait, access to finance for SMEs is an obstacle to their development. This finding is supported by Mansur et al, (2005), who suggested that SMEs have limited access to banks in Kuwait. It was found that the main reason for the lack of finance was that SMEs cannot offer collateral to the banks and the financial institutions, so all of the suggestions offered by the respondents in all groups aim to solve the problem of collateral, which will be discussed next.

The respondents were next asked about the principle of requiring collateral and if they could suggest any reasonable alternatives, particularly when dealing with SMEs. The following question was asked:

Most banks in Kuwait require collateral. What do you think of the principle of requiring security collateral? Are there other alternatives you suggest?

All of the *Sharia* board members made it clear that collateral is important for the banks and financial institutions. One of the respondents said:

“Of course, in the Islamic provisions, if the project’s owner owns part of the capital, the bank may enter as a partner into the collaboration contract which doesn’t require the project owner to provide many guarantees, and in such a contract, the project owner may, at the end of the contract, buy the bank’s shares till he owns all the project and shall have assets which enable him in the future to take loans from the banks under the guarantee of such assets.
.” SB4.

With regard to the importance of collateral and whether there are other alternatives solution for the collateral that banks used, two of the respondents suggested using *musharaka* contracts (joint company) as an alternative to collateral (see Table 76). One respondent stated:

“It is, actually, very difficult to provide finance without guarantees. However, some legal investment forms keep the guarantee distributed, such as the *musharaka* pattern, and when a company is established among a group of individuals, the collateral is distributed amongst them, because in *musharaka*, each partner is a guarantor to the other and also an agent for him. Therefore, in this case, no one of the partners shall be entitled to request a guarantee from the other partner because the guarantee is shared among them. The guarantee is available in the same formula, but the partners should submit collaterals with the parties with which they are dealing.” SB3

The above quote draws our attention to one of the important elements of Islamic finance that was mentioned in the literature review; Kettell (2010) stated that one of the most significant characteristics of Islamic banking and finance is that it encourages risk-sharing between providers of funds (investors) and users of funds (entrepreneurs). Under conventional banking systems, by contrast, the investor is assured of a predetermined rate of interest.

In conventional banking, all the risks are borne by the entrepreneur. Whether the project succeeds and produces a profit, or fails and produces a loss, the owner of the capital is still rewarded with a predetermined return (Kettell, 2010).

In further discussion with the *Sharia* board members, one of them suggested using leasing contracts (see Table 76). Another suggested that it would be a good idea to establish an

institution to act as a guarantor for investors seeking bank financing or to use Takaful insurance (see Table 76). The respondent stated:

“I think that one of the solutions which may be proposed is that we should establish an institution to act as guarantor for investors seeking bank financing or use Takaful insurance companies. We may arrange a policy of guarantee for investors of small enterprises as new types of collateral, so that any person who plans to establish a small enterprise and is in need of bank financing may arrange Takaful insurance on the financed debt that he wants to take from the bank in cases where, the customer faces hardship, the insurance company would pay on behalf of the customer according to the conditions of the insurance policy. This is important because the problem of financing is always due to lack of guarantees.” SB2

Table 76 Summary of alternatives to collateral

Answer options	Response count
Use musharaka contracts (joint company).	2
Use Leasing contracts.	1
Establish an institution to act as guarantor for investors seeking bank financing or use Takaful insurance.	1

In summary, of all the three groups it was found take collateral for the loan is obliges form the central banks. However, banks should meet the needs of the SMEs and take into account the level of the collateral they ask for, there was alternative solution that the Asset collateral which accept by the banks such as personal guarantee, credit history, bank wire transfer to the bank for the all the income, Also as alternative to the collateral banks can use a low risk contract such as leasing, some respondent suggested *musharaka* contract as alternative to collateral.

In continued discussion with the *Sharia* board members, they were asked about the importance of a business plan as a prerequisite to obtaining finance, and what banks would expect to see in a business plan. The following questions were asked:

Some financial institutions and banks require a business plan as a prerequisite to providing finance. In your opinion, how important is the business plan? What do you think it should include?

Three of the respondents believed that the business plan alone is not enough to secure finance but there are other things that are more important (see Table 77). One of the respondents indicated:

“In my opinion, the business plan alone is not enough, we should consider other important matters such as the experience of the person who applies for financing. A market study should be in place, and the legal conditions should also be considered.” SB2

On the other hand, one of the *Sharia* board members believed that it was not important for SMEs to present a business plan.

Table 77 Sharia board members’ opinions of the business plan

Answer options	Response count
Believe that a business plan alone is not enough to obtain finance.	3
Believe that it is not important to see a business plan.	1

With regard to the respondents’ expectations of what should be in a business plan, three of them wanted to see general information about the SME (see Table 78). One of them stated:

“The project owner should have a clear idea about his project and method of execution, the obstacles he may face, and how to avoid such obstacles. He should also have a plan of the first year, what aims he wants to achieve, a plan for the second and third years – these are important matters. If the owner has no work plan, or does not know his aims, then he goes and asks the bank for financing, he will not find anybody in the world who will agree to grant him financing. Therefore the work plan, and the feasibility study, are the important matters which should be arranged by the project owner to enable the bank to enter as a partner or speculator with the funds that the bank pays.” SB4

Furthermore, another *Sharia* board member suggested that the business plan should include different factors (see Table 78), as follows:

“The financial plan should include a set of factors, such as: clear marketing study, and clear technical study, complete financial study, and analysis of profitability indicators.” SB1

Table 78 Summary of what Sharia board members expect to see in a business plan

Answer options	Response count
General information about the company.	3
Marketing study.	1
Finance study.	1
Analysis of profitability.	1

In summary, and according to the three groups, it was found that the business plan is important as a prerequisite for obtaining finance from the banks and financial institutions. However, the business plan alone is not enough to enable the banks to make a decision. The finance plan should included the capital of the project, the number of workers, the expected future returns, sources of finance, marketing methods, the reasons for finance, the time plan, sources of raw materials, and expected risks.

The *Sharia* board members were next asked about the importance of an audited finance statement, approved by an external auditor, in the loan process. The following question was asked:

What do you think of the importance of financial statements approved by external auditor for the approval of loans provision?

One of the respondents believed that a financial statement, approved by an external auditor, was vital for bank approval (see Table 79). He said:

“This is a good indicator, and through the financial statements the bank may decide if the project is successful, if there are good chances for the bank to finance the project, or if it is a failed one which should be avoided.” SB4

Two of the respondents believed that financial statements approved by external auditors were generally important, although not trusted and not vital for bank approval.

“It is true that the financial statements are important but I think that the experiences of the project owners are also important.”SB2

Table 79 The Sharia board members' opinions on the importance of financial statements, approved by an external auditor, in loan approval

Answer options	Response count
Finance statements approved by external auditors are generally important, although not trusted and not vital to bank approval.	2
Finance statements approved by external auditors are extremely important and vital for bank approval.	1

It was realised, based on the feedback from the three groups, that finance statements approved by external auditors are important in the approval of loans by banks because the Central Bank of Kuwait obliges them not to provide finance without sight of three years' financial statements. However, there is strong evidence that there is manipulation of finance statements by some accountants. Because of this, these documents are not trusted and are insufficient on their own to secure finance from the banks.

Respondents were asked about the importance of the reputation of the borrower and their family background and personal relationships when they apply for a loan from the bank, as follows:

Some researchers suggest that the reputation of the borrower and their family background and personal relationships could affect the decision making in relation to the provision of loans. What are your opinions on this statement and why? And do you have any experience of this?

It was found that one of the *Sharia* board members believed that family background and personal relationships could have an effect. One of the respondents indicated that:

“Without doubt, particularly in the Gulf States, this is an important thing, because the person is keen to protect his reputation and his family reputation which are significant matters. Most families could not bear to see one of their members go to jail because he took funds from the bank and did not pay them back. Also the leading positions in the country are more careful about this. Therefore the banks may give grace with regard to certain guarantees with some leading people, such as University Doctors, Parliamentary Members, Ministers and Under Secretaries. These people are sensitive about their reputations, therefore the banks grant them certain facilities without, or with slight guarantees, and I see that as good practice.” SB4

The researcher asked the respondent whether a person can rely solely on his family name?

“This is an additional supporting matter but not the basic one. The basic thing is that the bank will consider the project which requires financing and the project plan, but no bank shall say; because of your name I will finance you.” SB4

Three of the *Sharia* board members stated that although the name of the respondent affects the bank’s decision, but this is not a positive thing and the Islamic banks should avoid it’. One of the *Sharia* board members stated:

“This practice is being followed in the banks, in fact several banks look at the name of the person, if he is from a family of business and trade, but I think that this is a negative aspect which should be avoided by Islamic banks.” SB2

The importance of the family name was further supported by another *Sharia* board member who went on to explain that banks sometime do not make the decision whether to finance an SMEs based on technical factors, but on family name. The respondent stated:

“The failure of most projects is due to the fact that the decision to finance is not based on sound technical and objective factors but on the basis of personal relations which leads to ignoring important aspects in studying the condition of the customer, which ultimately results in the failure of the customer.” SB1

In further, in-depth, discussion, one of the *Sharia* board members claimed that financing which was based only on family name will lead to racial discrimination in the future, and that it is against the theory of Islamic finance (see Table 80).

“I think that the family name may be effective in granting loans, but I don’t want to exaggerate in this matter because this will cause racial discrimination in the future, because the son of the rich family will get the finance. However, the one who has a moderate family will not be financed, and this is a very big mistake. When Islamic finance copes with the wrong social tradition, this means that the idea of Islamic finance is cancelled; in this case we have a very big problem, which is discrimination, because only the family name that is famous and well known is trusted to repay the funds. This is not correct because it may cause big problems to the financial institutions. Islamic finance institutions should not expand their granting of finance based on the family name alone. They should consider financial solvency, as in my opinion the family name has to be considered within limited restrictions. Thus, Islamic financial institutions should request guarantees. For example, the companies owned by those who request finance should provide more credit protection than merely depending on their family names, and this requirement is logical.” SB3

Table 80 Sharia board members' opinions on the reputation of the borrower, their family background and personal relationships in relation to loan approval

Answer options	Response count
Believe that family background and personal relationships could have an effect, however this is not a good thing.	3
Believe that family background and personal relationships could have an effect.	1

This finding supports Ibn Ashur (2006) who claimed that under Islamic law, equality in society stems from human equality congenital in nature and in all relevant matters, in which difference (between individuals) has no implications for the welfare and virtue of society. Thus, human beings are the same with regard to humanity: (“all of you are children of Adam”). They also have the right to live in this world by primitive nature, and no difference in colour, anatomy, ethnicity, or location can affect equality.

It can be concluded, based upon all of the responses, that family background and personal relationships could have an effect on a bank’s decisions, however, this is not a good basis for decision-making.

Respondents were asked whether they agreed that the government should intervene to support the SME sector, and if so, what role it should play. The following question was asked:

Do you agree that the government should intervene to promote awareness of the importance of SMEs? What should be the government’s role in supporting and promoting the SME sector in Kuwait?

All of the *Sharia* board members believed that the government should intervene to support the SME sector. One of the respondents indicated:

“Yes, the government should intervene because such types of projects act as economic activators and the basic channel for providing work chances in the future; the government should encourage such small and intermediate projects.”SB4

In relation to the question about government intervention the *Sharia* board members were also asked about the role government should play in supporting and promoting

the SME sector in Kuwait. Two of the respondents believed the government should issue special laws for SMEs (see Table 81); one said:

“Yes, I think that the government should intervene through, first of all, setting up legislation.” SB2

Two of the respondents believed that the government should link the educational institutions and the need for a labour market. One of them stated:

“We need a link between the educational institutions and the large establishments and the entity specialized in managing the projects so that in the future we can achieve coordination between the educational output and the needs in the labour market,” SB2

Another participant suggested that the government should establish an independent institution concerned with SMEs (see Table 81). He said:

“We need an independent institution concerned with small projects and to be a reference for such projects.” SB4

One person suggested that the government should establish accompany for marketing the products of the SMEs (see Table 81), as follows:

“If the government established a company for marketing the products of the small and medium companies, this procedure would relieve some of the burdens on small and medium producers, because there would be a company to promote the national products, which would market the products in and out of the country. Also the marketing company may bear the cost of marketing and advertisement against part of the profit, which should be reasonable. On one side it would relieve part of the burden and on the other side it would expand the markets for these small and medium products. The government should also organize local or international fairs outside of Kuwait so that the owners of small projects can demonstrate their products, which would also help the other companies to enter into contracts with the small and medium companies to be able to export their products.” SB4

One respondent suggested that government should provided land for SMEs (see Table 81), and one of the *Sharia* board members said that government should facilitate procedures for the owners of SMEs (see Table 81):

“Yes, I think that the government has to intervene to support and promote the SME sector by facilitating the procedures for the owners of SMEs and providing them with the required finance. The government has to reduce the time period required to obtain finance. The government has also to provide technical support and training to the owners of SMEs.” SB1

The above quotes support the findings of the KMF report (2008/2009), which says that international reports indicate that the procedures for obtaining the necessary approvals and licenses for private sector business are lengthy.

Table 81 Summary of the government’s role in supporting and promoting the SME sector in Kuwait

Answer options	Response count
Believe the government should issue a special law for SMEs.	2
Believe that the government should link the educational institutions with the need for a labour market.	2
Believe the government should establish an independent institution concerned with small projects.	1
Believe the government should establish a company for marketing the products of SMEs.	1
Believe the government should facilitate procedures for the owners of SMEs.	1

Based on the comments of all the respondents, the government should intervene to promote awareness and support SMEs by: passing a law that supports them; offering finance and security certificates to enable SMEs to take finance from banks; training educating and advising the SME owner-managers; and finally, creating incubators for them.

Respondent were asked whether they had knowledge of the Manpower and the Government Restructuring Programme (MGRP), and what their opinion was of this program. The following questions were asked.

Do you have knowledge of the Manpower and Government Restructuring Program (MGRP)? If so what is your opinion of this program?

The majority of the *Sharia* board members had knowledge of the Manpower and Government Restructuring Program, so their opinions of the program were sought in relation to SMEs.

One of the respondents agreed that the MGRP had a positive impact for SMEs in Kuwait (see Table 82). He stated:

“It had an important role before the recent increases in the Government sector and played a very significant part in qualifying the universities’ and institutes’ graduates. This confirms the defects we have in our educational output, which in some areas are not needed in the work market; there are no occupations available for such specializations. Whereas those specializations needed in the market have no sections in the universities in Kuwait, such as Islamic economy. Only last year they opened a section for the study of the Islamic economy although it is needed in the market by banks, Then, we had an educational defect, therefore the role of re-structuring was important to restore balance, and many people who were not needed in the market should be re-trained so that the graduates may enrol in courses to qualify for work in the private sector. But the big shock came with the recent increases in the salaries of the government sector, which made the restructuring impossible because most people are seeking employment in the government sector.” SB1

On the other hand, one of the respondents stated that the MGRP had a negative impact (see Table 82). The respondent stated:

“I think that labour support had a negative impact because many people exploit it incorrectly. You know now how people use it in an unreal and incorrect way. Many people register themselves fictitiously in companies to get the labour support. This is a common problem between both the employee and employer because the employer makes use of the fact that he/she has Kuwaiti employees enrolled in the work lists. For example, the employer registers in the company’s file that he/she has 20 Kuwaiti employees, as per the State’s laws, which, in turn, entitles the employer to win the State’s tenders and authorizes him to recruit 10 new non-Kuwaiti employees. The employer, in return, pays a salary to the Kuwaiti employees without requesting any work from them which results in the creation of a generation of masked unemployment - people staying at home.” SB3

Table 82 Sharia board members’ opinions of the MGRP

Answer options	Response count
Has had a positive impact.	1
Has had a negative impact.	1

It has been realized from the responses of the entire sample that the Manpower and Government Restructuring Programme has had apposite impact on the SME sector through the monthly salary, but that the monthly salary can also have a negative impact.

Moreover, the respondents were asked if they were aware of the fund that the Kuwaiti government had recently established, and how they thought the fund should be used. The following questions were asked:

The Kuwaiti government established a fund with capital of KD 2 billion to support the SME sector. Were you aware of this? How do you think this should be used?

Three of the respondents had knowledge of the fund that the Kuwaiti government had established to support SMEs. One of them said:

“Of course it is a good idea but it involves certain problems. The first problem is that there is no special legislation in Kuwait for small projects. Second, they made a condition that the person who applies for financing should not be a government employee. This is a big problem because the applicant faces high risks after leaving his work with the government. In my opinion, the process of full time dedication should be gradual.” SB2

In relation to the question about the government fund, the *Sharia* board members were asked for their thoughts on how this should be used. One of them suggested that the fund should give money to the banks and that the banks should finance the SMEs (see Table 83).

On the other hand, one of the *Sharia* board members suggested that the Kuwaiti government should use only one institution to finance SMEs in order to minimize distribution efforts (see Table 83). The respondent stated:

“Of course, I consider that the problem lies in a government department. For example, we have now several government establishments that finance small and medium projects, such as the Portfolio of the Industrial Bank, which is a government portfolio. Also the Kuwaiti Company for Small Projects is a government company, and now you say KD 2 billion. It means that the State lacks unification in distributing its efforts. When the efforts are scattered, the aims which should be sought in a strong institution, and of building experience from one year to another, are lost. Most young people in fact do not know where to go to secure support and financing, nor do they know where in government can provide support to small and medium projects. There should be an integral government entity to support the small projects.” SB4

Table 83 Sharia board members' opinions on how the fund should use the money

Answer options	Response count
Through the banking sector.	1
The Kuwaiti government should use only one institution to finance SMEs.	1

It can be concluded that all respondents had knowledge of the new fund that the Kuwaiti government had established with capital of KD 2 billions. There were some valuable suggestions about how the government should use the fund.

8.4 Kuwaiti Islamic finance institutions

The *Sharia* board members were asked, about the difficulties faced by banks when financing SMEs, whether they were satisfied with the financial resources available to SMEs, about the idea of developing specific institutions for SMEs, and other research questions related to the second question of this study.

Respondents were asked about the difficulties that are faced by the financial institutions when financing SMEs, as follows:

What are the most important difficulties facing your institution in the field of financing SMEs? How do you deal with these difficulties?

One of the respondents indicated that the lack of collateral is one such problem:

“There are many problems which face small projects because they do not have assets or collateral in order to secure bank finance; I think this is the main obstacle. Certain banks ask for financial statements, but the company may be newly established and not have such statements, which makes financing difficult.”SB3

A respondent from a different bank suggested that lending to SMEs is too risky; so many banks refuse to do so:

“Some banks made it a condition that small project owners are experienced, which is not workable for many people. Most applicants are fresh graduates, and as I said, due to the absence of government support, the banks cannot take the risk with the funds of shareholders and deposit holders except if it is a very worthy project with adequate guarantees for success. There are some banks which accept the risk of providing finance, but when a person comes without guarantees or experience, or does not have a license from the State, it is difficult for the banks to finance him.” SB2

Another issue facing banks and financial institutions when financing SMEs is that most SME owner-managers suffer from a lack of experience. One respondent stated:

“Most of the owners of small projects suffer from a lack of experience in the feasibility studies. Normally a person comes to the bank asking for finance for a certain project; the idea may be a good one but the feasibility study and market studies he submits are very weak, which do not encourage the banks to initiate financing.” SB2

Another *Sharia* board member argued that many SMEs in Kuwait fail to explain their project's feasibility. The respondent stated:

"I believe that one of the main problems of financing such types of projects is to verify the competence of the project owner, his integrity and the project's feasibility."SB1

Table 84 The most important difficulties facing institutions in the field of SME finance?

Answer options	Response count
Lack of collateral.	1
Lending to SMEs is too risky.	1
SME owner-managers suffer from a lack of experience.	1
SME owners are unable to explain their project's feasibility.	1

The participants were asked what types of finance products The most important difficulties facing institutions in the field of SME finance SMEs:

What types of financial products are offered by your institution to SMEs?

One of the *Sharia* board members indicated that the Kuwaiti banks offer many kinds of financial products. The respondent stated that:

"Contracts of leasing, *Murabaha*, speculation and contribution, we also have operational leasing, leasing leading to possessing, all the Islamic contracts such as parallel fabrication, amicable and parallel amicable contracts - all may be used in the Islamic banks."SB2

Another respondent believed that the Islamic financial institutions have many kinds of financial tools that can be use for all kinds of projects. He suggested how Islamic financing institutions could finance creativity, as follows:

"I recall that in Sudan they have good experience. I attended a conference on how to finance small projects which are the result of creativity. For example, how can we finance a project which produces a vaccine or certain machine? How can Islamic banks finance such products? The proposal was to use "JA'ALLAH", which is an Islamic contract or speculation. Here, the bank finances KD 100 thousand for research and, if the product is ready, the proceeds of any sales are divided according to the percentages agreed upon. This approach is very important to the financing of creative inventions and the discovery of vaccines." SB4

Table 85 Types of financial products for SMEs offered in Kuwait

Answer options	Response count
Leasing.	2
Murabaha.	2
musharaka.	1
Letter of Credit.	1
Tawaroq.	1
Istisna.	1

It can be concluded, from the sharia board members feedback that the most available product for SMEs in Kuwait is *Murabaha*, followed by Leasing and *musharaka*.

In continued discussion with *Sharia* board members, they were next asked about the idea of developing specific institutions for SMEs. The following question was asked:

What do you think of the idea of developing a specific financing institution for SMEs?

It was found that two of the respondents believed that it would be a good idea to develop a specific institution for SMEs in Kuwait (see Table 86). One of them indicated:

“The advantage of this idea is that this institution may impose its decisions and conditions on financing; on the banks because their funds shall be deposited in the banks and the bank shall, in turn finance the small and medium projects, particularly if the deposited amount is 1 or 2 billions. As an example of this we have the Social Securities which control many financial institutions because they have a stock shareholding in them. Therefore, they have the ability to influence the decisions taken in such institutions.

The second thing if there would be a unified and strong staff who could address the official authorities on behalf of the small project owner.” SB4

Another person emphasized this point of developing a specific financing institution for SMEs, saying that the institution should represent coordination:

“I think that it is a good idea because the role of this institution should represent coordination between the private sector, the banks, labour market needs and the education institutions. This institution should represent a connecting link between these bodies to accommodate and appoint the university graduates in the future according to a clear plan.” SB2

On the other hand one of the respondents believed that government should overcome the obstacles in the current institutions. The participant stated:

“The important thing is not to establish a new institution but to overcome the obstacles in the current institutions; mainly the bureaucracy, routine and slow process of decision making about whether to issue the finance.”SB1

Table 86 Opinions on developing a specific institution for SMEs

Answer options	Response count
Believe that it would be a good idea to develop a specific institution for SMEs.	2
Believe that the government should overcome the obstacle in the current institutions.	1

In summary, all of the respondent answers indicated that it would be a good idea to develop a specific institution for SMEs.

The *Sharia* board members were asked their opinion about whether the Kuwaiti finance sector was capable of helping SMEs, as follows:

Do you think the environment of the Kuwaiti finance sector is capable of absorbing finance for more SMEs and guiding them towards a long and successful life? Why?

Two of the *Sharia* board members believed that this was possible; one stating:

“Yes, but under a condition that the management of such projects should be entrusted to private sector institutions and be operated under its supervision.” SB1

It can be concluded that the environment of the Kuwaiti finance sector is capable of absorbing SMEs and guiding them towards a long and successful life.

8.5 Islamic finance further support for SMEs in Kuwait

The *Sharia* board members were asked their opinions about the new Islamic legislation, the Islamic finance instruments, using Leasing (hire-purchase) and *musharaka* as a source of finance for SMEs, and their opinions of using *zakat* and *waqf* as new sources

of finance, plus other questions which related to the third research question of this study.

First, the respondents were questioned about the new legislation for establishing Islamic banks and whether this law would introduce more opportunities for SMEs. The following questions were asked:

In the light of the new Islamic legislation (Laws) for establishing new Islamic banks in Kuwait, do you think that these laws and regulations constitute an opportunity to finance SMEs in the future? Why?

All the *Sharia* board members clearly agreed that the new Islamic legislation for establishing Islamic banks would be helpful for SMEs. One of the participants commented:

“I believe that Islamic banks have capacity, particularly in the presence of laws which regulate their work. Also they have a facility to provide financing and to help the owners of small projects through the tools permitted by Islamic legislation (such as collaboration, *Murabaha* and leasing, and other tools which allow for such support).”SB4

On the other hand, one of the respondents indicated that, although he was not aware of the detail, the legislation should solve the problem of the absence of law. He stated:

“I can’t answer this question because I am not aware of the details of the law nor do I have any idea of the law, but as a law I think it solves the problem of the absence of law. We know that the problems which face Islamic financial transactions are due to the absence of law.” SB3

Another participant further emphasized this point by explaining:

“Of course, the laws and regulations represent opportunities to finance all kinds of enterprises, including the SMEs without distinction.” SB1

We can summarise the findings as follows: the bank managers and the SME owner-managers agreed that the new laws for establishing new Islamic banks in Kuwait would not be helpful in the financing of more Kuwaiti SMEs; the *Sharia* board members, however, agreed that the new legislation for establishing Islamic banks would be helpful for SMEs.

The participants were further questioned on their opinions about whether there were any advantages to using Islamic instruments. The following questions were asked:

Do you think that Islamic financial instruments are more suitable than commercial instrument for SMEs? Why?

Three of the respondents believed that Islamic instruments were more suitable than commercial instruments (see Table 87). One of the *Sharia* board members gave two reasons for this:

“I believe that they are more suitable for two reasons. The first is that they depend on legislative Islamic form and when we observe such form we are far from any legal violations. The second, the form of Islamic financing achieves a type of diversity which is not found in traditional financing. This is because, as you know, the form of traditional financing follows one aspect, which is lending against interest, but in Islamic legislation there are several forms, including collaboration, leasing, speculation, agency, and investment. Such diversity is not found in the traditional forms of financing.” SB3

A different *Sharia* board member reinforced the issue that Islamic instruments are more suitable. The respondent claimed that Islamic instruments include collaboration between the financial institutions and SME owner-managers.

“Yes, because it includes contracts based on joint effort between the financing entity and the project owner as speculation and collaboration. But such contracts are high risk because their success depends mainly on the competence and honesty of the partner.”SB1

The above quotes draw our attention to an important factor of Islamic finance, identified by Ayub (2007), which was discussed in the literature review. He stated that trading is one of the most common activities for Islamic banks. While traditional banks simply finance businesses by providing funds, Islamic banks are forced to become involved in the process of selling and buying goods in accordance with the trade rules prescribed by Islamic law. They are entitled to profit by undertaking commercial risks such as those involved in the real business sector.

On the other hand, one of the respondents felt that Islamic instruments were more suitable from the religious point of view (see Table 87):

“If we look at the technical side, we have more than one pivot to think about if we want to prefer one method of finance to another. The first pivot is finance cost: is the cost of traditional finance less than that of Islamic finance or are they equal? As you know, the interest rate, whether in Islamic banks or the traditional banks, is determined according to the instructions of the Central

Bank, but there is competition. The Central Bank determines the maximum and minimum limits of the interest rate and the client has the right to speak with the bank to decrease the interest rate. However, this is an interim decision because when the Central Bank changes the interest rate, the traditional bank will change the interest rate, and this is different from the Islamic banks where the discount price is always fixed. This is the first pivot and the second pivot is that we consider that the guarantees conditioned by the Islamic banks are more than the guarantees required by the non-Islamic banks, and this is very important in this topic.” SB2

Table 87 Sharia board members’ opinions of the Islamic finance instruments

Answer options	Response count
Believe that Islamic instruments are more suitable than commercial instruments.	3
Believe that Islamic instruments are more suitable from a religious point of view.	1

It can be concluded from the responses of all the interviewees that the Islamic instruments are more suitable than commercial instruments.

The respondents were then asked about their opinions on leasing in relation to SME finance. The following questions were asked:

Today many Islamic banks use leasing (hire-purchase) as a source of finance. What do you think about leasing as a new source of finance to SMEs in Kuwait? Do you believe it will be helpful? What are the disadvantages of leasing?

All of the *Sharia* board members felt that Leasing was a helpful source for SMEs, one of them indicating:

“Of course, it is useful because it doesn’t need guarantees by the project owner and according to the leasing contract; the bank is still the owner of the assets, which gives it more assurance in the financing arrangement.” SB4

Although all of the board members agreed that Leasing is helpful for SMEs, some expressed their opinions in detail and some suggested disadvantages of hire-purchase. Two of them believed that, although Leasing is helpful, there is a problem either with the practice or with the law that governs it. One of the respondents stated

“We know that the form of Leasing ending with possession is a form that originally appeared in European markets then we imported it, entered certain amendments to comply with the Islamic provisions. It is acceptable as legal Islamic form after amendment but there remain some problems in application which, till now, have no final solutions. Such problems may be summarily stated in the confused obligations during the leasing stage, between the Tenancy stage and the Buyer stage which is clear in the high rate of the

commercial instalment because it is part of the price. This effect also appears if the contract is terminated whether in the transitional period from leasing to selling or when another person replaces the Tenant, such problems arise.” SB3

The same respondent believed that leasing helps to increase the leasing value in the market in general. A different board member mentioned that Leasing is a helpful source of finance for SMEs but that it can be used for only certain kinds of projects, not all. The respondent stated:

“Ijarah ended by ownership (ijara muntahiya bi al Tamleek) is valid for financing some projects, not all projects. Thus, through Ijarah ended by ownership, the fixed assets can be purchased. The disadvantage of this Ijarah is that it is not valid for financing some projects, including the small projects (in my own point of view).” SB1

Table 88 Sharia board members’ opinions of Leasing (hire-purchase) as a source of finance for SMEs

Answer options	Response count
Believe that Leasing is a helpful source of finance for SMEs but there is a problem either in the practice or in the law that governs it.	2
Believe that Leasing is a helpful source of finance for SMEs but that leasing helps to increase the leasing value in the market in general.	1
Believe that Leasing is a helpful source of finance for SMEs, but it can be use for only some kinds of projects, not all.	1

It can be concluded from the replies of the three groups (the bank managers, the SME owner-managers and the *sharia* board members) that leasing (hire-purchase) is useful for financing SMEs in Kuwait.

Next, the *Sharia* board members were asked about their opinion of *musharaka* in relation to SMEs finance. The following questions were asked:

What do you think of musharaka as a source of finance? What would you say about the advantages/disadvantages of musharaka?

All of the *Sharia* board members agreed that *musharaka* is useful as a source of finance for SMEs. One person stated:

“This form is one of the important contracts which contribute to achieving comprehensive development; they can be used to finance all types of projects. The defect is that their success depends on the extent of competence and honesty of the partner.”SB1

Although all were in agreement that *musharaka* is a helpful source of finance, some expressed their opinion in detail, and some suggested advantages and disadvantages of the tool. One said that *musharaka* is useful, but that many Islamic financial institutions do not use it because it is high risk. The respondent stated:

“This is the best type of financing method for owners of small and medium projects. But the banks are reluctant to use it repeatedly because of the high risks involved; the banks issue financing to the owner of the small project, and the project management is in the hands of the owner. The bank cannot take part in the management, nor can it ask for adequate guarantees because it is a partner in the profit and loss. If the owner declares a loss and it was a real loss, the bank has to accept it.” SB4

Another board member thought that *musharaka* was useful for financing SMEs because its merit was that it distributed risk.

The above quotes support and agree with Usmani (2010) who explained that *musharaka* is an Arabic word which means sharing. In the context of business and commerce, it is a joint project with the participation of all partners in profit or loss for the joint venture. It is an ideal replacement for interest-based finance with further impact upon production and distribution. In the modern capitalist economy, interest is the only tool used in every type of finance. Since Islam prohibits interest, this instrument cannot be used to provide the basis of Islamic principles.

Table 89 Sharia board members’ opinions of *musharaka* as a source of finance for SMEs

Answer options	Response count
Believe that <i>musharaka</i> is useful for financing SMEs but many Islamic finance institutions do not use it because of the high risk involved.	1
Believe that <i>musharaka</i> is useful for financing SMEs because their merit is that they distribute risks.	1

Based upon the responses of the three groups (the bank managers, the SME owner-managers and the *Sharia* board members) it was felt that *musharaka* is a useful source for financing SMEs in Kuwait.

The *Sharia* board members were asked the following questions to find out their opinions on using *zakat* and charity money as new sources of finance for SMEs:

As you know, the zakat House in Kuwait is considered to be one of the most important organizations in the Islamic world. What do you think about zakat and charity as a new source of finance to SMEs in Kuwait? Do you believe it will be helpful and in what way? What would you say about the advantages/disadvantages of zakat?

The *Sharia* board members were agreed that *zakat* and Charity would be helpful support for SMEs. Some expressed their opinions in detail and some suggested advantages and disadvantages of the approach. Two of the respondents believed that it was permissible to invest money from *zakat* and charity in the financing of SMEs, but that this investment should be in low risk SMEs.

Another, two of the respondents said that *zakat* and charity were useful for supporting, training and educating the SME owner-managers (see Table 90).

One of the *Sharia* board members believed that *zakat* and charity are useful for financing SMEs because the theory of *zakat* and charity is to help the poor to become rich (see Table 90).

“There are jurisprudence opinions in the Islamic legislations which state that out of the *zakat* funds a bona fide loan may be granted. The funds are paid back and may be given as loans again to others. Therefore, Islam encourages that the said funds are given to productive projects. As an example, the Prophet (peace be upon him) gave an axe to a man and told him, go and collect wood, he gave him a tool of production so that he could produce for himself and was no longer in need of help from others. We always attempt to employ such funds in productive matters which help the poor.

There is an example in Bangladesh called the Bank of the Poor, which provides small loans. These are usury loans according to us but we can benefit by such experiences, and learn to grant loans to people according to the Islamic provisions from *zakat* funds or *waqf* according to the conditions of the donor. Such loans are granted at less than USD 100. Therefore, when a woman buys

a sewing machine it will encourage her to work for production, and when you buy carpentry tools for a man, and you let him start work for himself, this is productive work which doesn't cost much money, but it will turn him into a producer, not a help seeker." SB4

The above quotes supported claims by Samad and Glenn (2010) who suggested that the establishment of *zakat* payments has several objectives: first– the eradication of poverty and maintenance of socio-economic justice- second safeguarding wealth from the jealousy of others, the poor in particular; third -keeping the giver thankful to God for His bounty.

One of the *Sharia* board members commented that *zakat* and charity are useful for financing SMEs because they incur no extra cost on the loan (see Table 90).

"The merit of *zakat* funds is that they have no cost for the project owner. Sometimes when you grant him *zakat*, you do not expect him to re-pay it; therefore it incurs no financing burden on the project owner."SB4

Another participant said that *zakat* and charity are useful approaches because they do not need to be retained (see Table 90).

Table 90 Sharia board members' opinions of *zakat* and charity as new sources of finance for SMEs

Answer options	Response count
Believe that it is permissible to invest the money from <i>zakat</i> and charity in financing SMEs; however, this investment should be in low risk SMEs.	2
Believe that <i>zakat</i> and charity are useful for supporting, training and educating SME owner-managers.	2
Believe that <i>zakat</i> and charity are useful for financing SMEs because the theory of <i>zakat</i> and charity is to help the poor to become rich.	1
Believe that <i>zakat</i> and charity are useful for financing SMEs because they add no extra cost to the loan.	1
Believe that <i>zakat</i> and charity are useful for financing SMEs because the <i>zakat</i> and charity do not need to be retained.	1

From the analyses of the three groups, it was found that the *Sharia* board members agreed with the SME owner-managers that using *zakat* and charity would be helpful for

financing SMEs in Kuwait. The bank managers, however, had little to say about the idea of using *zakat* and charity as new sources of finance for SMEs.

Respondents were asked about using *waqf* as a new source of SME finance, as follows:

What do you think of waqf as a new source of finance for SMEs in Kuwait? Do you believe that it would be helpful and in what way? What are your opinions about the advantages/disadvantages of waqf?

All of the *Sharia* board members felt that it would be helpful to use *waqf* in this way, although some expressed their opinions in detail and some suggested advantages and disadvantages of the approach. Two board members thought that it was permissible to invest *waqf* money in SMEs; but that this investment should be in low risk and that, the profit should be retained and added to the *waqf* (see Table 91). One stated:

“Waqf (Endowment) is based on investment, which means to restrict the original fund and use the benefits, which is estimated as one quarter, also I should observe the conditions of the Donors, and in case of investment, the said investments should be safe and according to the norms of the market, this is among the duties of the Wqaf (Endowment)-Administrator who should invest the *waqf* under reasonable risks but if he invested in high risk investment he may cause a loss which he shall bear.”SB3

Two of the *Sharia* board believed that it would be a good idea to use *waqf* to support and finance SMEs, but that marketing these ideas to the people would be a problem (see Table 91). One of the respondents stated:

“Waqf is a good source of financing of small enterprises particularly if we can use the experience of the General Secretariat of Waqf in this regard. As for the defects of Waqf: they require a marketing effort at a high level to convince the donors to support such a trend.”SB1

Two people felt that *waqf* would be useful for supporting, training and educating SME owner-managers (see Table 91), and one saying:

“Of course in the past in Islamic Jurisprudence, *waqf* has been used for such things. As an example, Al-Azhar University was established only with *waqf* funds, but people began to reject it when it began to be seized by the government. SB1

One person believes that it can be establish a *waqf* to ensure and issue security certificate (see Table 91).

Table 91 Sharia board members' opinions of waqf as a new source of finance for SMEs?

Answer options	Response count
Believe that it is permissible to invest the money of <i>waqf</i> in financing SMEs, however, this investment should be in low risk.	2
Believe it is a good idea to use <i>waqf</i> to support and finance SMEs, however there is still a problem with marketing these ideas to the people.	2
Believe that <i>waqf</i> is useful for supporting, training and educating the SME owner-managers.	2
Believe that it can be establish a <i>waqf</i> to issue security certificate.	1

In the light of the above analysis and the previous other responses it was found that the *Sharia* board members agreed with SME owner-managers that using *waqf* would be a helpful new source of finance for SMEs in Kuwait. The bank managers, however, had little to say about the idea of using *waqf* as new sources.

The respondents were asked about their perception of using *qard hassan* as a new source for SMEs. The following questions were asked:

Many Islamic countries such as Saudi Arabia and the United Arab Emirates have institutions that use qard hassan as a source of SME finance. What do you think about qard hassan as a new source of finance for SMEs in Kuwait? Do you believe that it will be helpful and in what way? What would you say about the advantages/disadvantages of qard hassan?

The *Sharia* board members agreed that *qard hassan* would be useful for supporting SMEs. One of the respondents stressed this point by comparing *zakat* and *qard hassan* as follows:

“The *qard hassan* loan in Islamic legislation is better than *zakat* and the reward of the bona fide loan is more than that which the charity giver has, because as long as the loan is utilized by the borrower, the good deeds are continuously credited to him whereas alms are ended when they are paid.”SB4

Although all of the *Sharia* board members agreed that *qard hassan* is a helpful source for SMEs, some expressed their opinion in detail and some suggested advantages and disadvantages of using *qard hassan*. Two believed that it would be helpful to use *qard hassan* to finance SMEs, however it is difficult to offer a guarantee that the loan will be paid back.

“The problem with bona fide loans is that people always think that they are not obliged to repay them to the lender, because when you give somebody such a loan, it means that he is in need of it and it shall not be re-paid; this is one of the defects.”SB4

One participant said that *qard hassan* could be insured through Takaful insurance.

“Of course, there will be high risks, as some people may take *qard hassan* and don't repay it or repay the debts. However, Takaful insurance can be applied to the debts. Takaful insurance could be applied. For example, I give a client one million Kuwaiti Dinars as a *qard hassan* and he/she should go to the insurance company and request an insurance policy on *qard hassan* and bear the contribution fees of this policy, so that the insurance company, in the case that the client doesn't repay the loan amount, repays on behalf of the client.” SB2

Two of the board members said that it is helpful to use *qard hassan* by the government to support SMEs and it is difficulties to use by the banks.

“The idea of a bona fide loan in financing is feasible, and as I told you, Bahrain Islamic Bank was the first to allocate part of its profits to such loans. Also there are certain companies which grant *zakat* on behalf of their shareholders, which have contributed in this way. Therefore, if we have institutions which grant bona fide loans it will arrange matters in a better and more credible way, and such loans may be directed, as part of the support, to the projects needed by society. They may be granted for farming or crafts men.”SB1

One person felt that *qard hassan* is helpful for supporting SMEs and that the banks can take an administrative fee on the *qard hassan*.

“fees can be added to *qard hassan*. These fees can be, for example, KD 100. This point should be studied from the Islamic *Sharia* perspective. It is applied in the Islamic Bank for Development and extending this topic to the Islamic Fiqh Academy and there is a decision issued in this regard.” SB2

Table 92 Sharia board members' opinions of using *qard hassan* as a source of finance for SMEs

Answer options	Response count
Believe that it is helpful to use <i>qard hassan</i> to finance SMEs, however it is difficult to offer a guarantee that the loan will be paid back.	2
Believe that it is helpful to use <i>qard hassan</i> by the government to support SMEs and it is difficulties to use b the banks.	2
Believe that <i>qard hassan</i> can be insured through Takaful insurance.	1
Believe that <i>qard hassan</i> is helpful for supporting SMEs and the banks can take an administrative fee on the <i>qard hassan</i> .	1

In conclusion, all the respondents agreed that it is a good idea to use *qard hassan* as a new source of finance for SMEs.

From the above qualitative data, it is clear that *qard hassan* would be helpfully it is administered either by the government or by the *zakat* and charity foundation. This finding is supported by Mohieldin et al. (2011), who stated that a relatively small number of free loans have been made in Pakistan, and by some small rural banks in Indonesia. However, no organized institutions are known to work on the basis of *qard hassan* except in Iran where it has been utilized effectively to provide funding for those in need, and these institutions are widespread throughout the country.

Qard hassan could also be considered an excellent tool with which to support SMEs, and to penetrate low income levels which are deprived of the financial resources that are not exploited properly in Islamic countries (Mohieldin et al., 2011).

8.6 Summary

This chapter discusses the findings of four semi-structured interviews that were conducted with *Sharia* board members from the financial institutions that finance SMEs in Kuwait in order to provide a number of in-depth understandings of the research questions.

In summary, the *Sharia* board members do not agree about the definition of SMEs in Kuwait. It was realized from their answers that SMEs are extremely important to the State's economy. The *Sharia* board explain that SMEs copy with the Islamic finance theory. Furthermore, the *Sharia* board members agreed with the SME owner-

managers, and bank managers that access to finance for the SMEs in an obstacle in Kuwait.

In addition, the *Sharia* board members claimed that the banks should meet the needs of the SMEs in Kuwait and take into account the level of the collateral they ask. Also they suggested alternatives to collateral, such as using *musharaka* contracts and Takaful.

Sharia board members agree with the SME owner-managers and the bank managers that family background and personal relationships could have an effect on a bank's decisions, however, this could lead to racial discrimination in the future and is against Islamic finance theory.

Furthermore, the *Sharia* board members agreed that the new Islamic legislation for establishing Islamic banks would be helpful for SMEs because this law will solve the problem of the absence of law. Also, the participants believed that Islamic instruments are more suitable for SMEs than commercial instruments because they include collaboration between the two parties.

Leasing (hire-purchases) is a helpful source of finance for SMEs in Kuwait, but there is a problem in the law that governs leasing and a problem also with the practice. On the other hand, the *Sharia* board members considered that *musharaka* is a valuable source of SME finance. Many Islamic finance institutions, however, refuse to use *musharaka* contracts because they consider them to be high-risk.

The *Sharia* board members add a wealth of understanding in terms of using *zakat*, charity and *waqf* in financing SMEs, claiming that, according to Islamic law, it is permissible to invest the money from *zakat*, charity and *waqf* in financing SMEs. However, this investment should be a low risk investment. Also they suggested that the money should be used in training and educating SME owner-managers.

Chapter 9 Chapter Nine Research discussion

9.1 Introduction

This chapter discusses the combined results of the three previous chapters (Chapters Six, Seven and Eight) and is organised into three sections as follows: Section 9.2, factors that affect SMEs in Kuwait; Section 9.3, Kuwaiti Islamic finance institutions; Section 9.4, Islamic finance and further support for SMEs.

Furthermore, in February 2014, the Kuwaiti government implemented the final legislation for the Kuwait National Fund for SMEs with capital of 2 billion. The new fund will be in place by the end of 2014. One of the aims of this chapter is to compare between the finding of this research and the new fund law for SMEs with a view to making recommendations to aid the development of the SME sector.

The researcher conducted semi-structured interviews with three groups, SME owner-managers, bank managers, and *Sharia* board members, and each group added value to one of the three questions of the research. The overall results, which are discussed in this chapter, help to answer the research questions and to identify the link between Islamic finance and finance SMEs so that the researcher shoes to conducted the interview with the three groups. Al-Jarhi (2013) suggested that there are gaps between the theory and practice in Islamic finance, which is a part of the Islamic economy, and that these need to be addressed by both scholars and practitioners. The scholars, in this case, are the *Sharia* board members and the practitioners are both the SME owner-managers and the bank managers.

This research, as is the case for any academic research, has to be based on theoretical foundations. It uses agency theory, asymmetric information theory, moral hazard theory and Islamic finance theory, and this chapter links the findings of the study to these theories to add value to the existing literature. Agency theory explains the organization of relationships when one agency determines the work and another undertakes it. The agency relationships in the Islamic financial institutions are different as compared to the conventional banks; the Islamic finance institutions have a less

agency problem, because the all transaction in the contract must be agree with the *Sharia* law, indicating that it has to be reliable with the divine law stated in the Quran and hadith.

9.2 Factors that affect SMEs in Kuwait

9.2.1 Definition of SMEs in Kuwait

It was found that there is no official definition for SMEs in Kuwait, and also that the respondents felt that this was a problem. However, they suggested many standards that could be used as definitions. For example, all three groups suggested capital value. This result is consistent with the findings of Benzing, Chu and Kara (2009), Oseni et al. (2013), Ali (2013), and the OECD (2014), who claimed that capital value, number of employees, and a firm's turnover are the main standards for SMEs. However, one of the SME owner-managers commented that capital value is the wrong definition because most large companies, even large firms, in Kuwait are registered with 50,000 KD, so that capital value does not represent the true size of the company.

Some respondents from the SME owner-manager group and from the *Sharia* boards suggested using the number of employees as a standard. However the findings indicate that this is not the right standard for two reasons:

- 1.) That in Kuwait there is no significant number of employees.
- 2.) The data analysis revealed a strong correlation between the definition of SMEs in terms of the number of employees and phantom employment, because Kuwaiti workers who register in the private sector receive income support (a monthly salary from the government) so that some people register themselves fictitiously with companies in order to draw this benefit. The data found that phantom employment is in the common interest of both the employee and employer, because the employer cannot draw benefit from the government unless the company has Kuwaiti people enrolled on its work lists (such as the recruit non-Kuwait employees and Government contract) and employees enrolled in private sector companies can take a monthly salary.

Based on the above, if we use the number of employees as a standard, this will increase the problem of phantom employment because the SME owner-managers

will not be able to receive government support unless they employ the required number of Kuwaiti workers.

This research reviewed various SME definitions, other than capital value and number of employees, and one of the bank managers suggested using the volume of turnover (Ahmed, 2012; Inyang,2013; Oseni et al., 2013; Mohammad, 2015 a). This finding supports the studies by and Ali (2013), who found that the volume of turnover of business is in general a more appropriate measure of its relative size than either of the more conventional measures. From the findings, it seems that the turnover related definition has multiple advantages for the Kuwaiti economy.

The new national fund does not agree with the findings of the study. The new law defines small enterprises as projects where the number of Kuwaitis does not exceed four persons and the capital does not exceed KWD 250,000. It defines medium enterprises as projects where the number of Kuwaitis involved ranges between five and fifteen persons and the capital does not exceed KWD 500,000.

9.2.2 The importance of SMEs to the Kuwaiti economy

The findings of this study indicated that all the respondents from the three groups recognized that SMEs represent an important segment in Kuwait's economic growth. Furthermore, this result confirms those of Mole (2002), Benzinger et al. (2009), Shinozaki (2012), Han, Benson, Chen and Zhang (2012) and Shaban et al. (2014), who suggested that SMEs are the driving force behind both the economy and social stability, due to their quantitative impact on the national economy, job creation, development of a competitive business environment, and stimulation of the industrial base.

Despite the agreement of the three respondent groups that SMEs play a major role in economic development, and contribute to the solving of unemployment and reduction in dependence upon government jobs, particularly for Kuwaiti nationals, the respondents summarized why SMEs are important for Kuwait's economy from their own point of view. For example, the SME owner-managers highlighted that SMEs are main sources of innovation, and are also important because they help to keep money inside the country and to reduce imports from abroad. The findings of this study agree

with those of Smallbone and Welter (2001), and Ali (2013), who found that SMEs play a key role in innovation.

Furthermore, from the banks' point of view, semi-structured interviews provided the insight that SMEs are important because they add value to GDP. The bank managers also believed that SMEs are complementary to large businesses.

Interesting findings were made about the importance of SMEs from the bank managers' point of view. One bank manager claimed that, although lending to SMEs is considered risky, banks should deal with SMEs because their risks are different from those of large companies and also of real estate finance. Therefore, banks should incorporate variety into their finance portfolios.

On the other hand, the *Sharia* board members claimed that SMEs are perfectly suited to Islamic finance theory because the economic thinking in Islam depends on gathering work and money, money and money, work and work. These three elements achieve the most important factor in Islamic finance theory, the exchange of wealth among people. This present finding seems to be consistent with the studies of Shahinpoor (2009) and Oseni et al. (2013), which emphasise that, in order to fulfil the objectives of Islamic law (*maqasid al Sharia*), the financing of SMEs should be part and parcel of Islamic banking.

To sum up, it seems that SMEs should become strategic tools in solving some of the challenges which are currently faced by the government, such as the reduction in dependence upon government jobs, and reliance on oil as the only source of income for Kuwait. Therefore, the findings of the research are in line with the objectives of the new fund, which are to sponsor and develop small and medium enterprises and to enhance the abilities of their owners. This it will do through the execution, coordination and promotion of its spread and by working on the achievement of the following:

- 1- Development of the national economy by following certain policies for creating job opportunities.
- 2- Spreading awareness of the advantages of private work, and the coordination and promotion of SMEs.

- 3- Financing the projects in accordance with the provisions thereof.
- 4- Increasing the competition capabilities of the project. This will be alongside a commitment to the achievement of the most feasible support for the project and to minimal interference with its activities.
- 5- Supporting local products and encouragement of innovation and intellectual property rights.

9.2.3 Banking credit policy

When the respondents were asked about the things that could be changed in the banks' credit policies to develop the SME sector, there was overall agreement between bank managers and the *Sharia* board members that the government should act as guarantor for the SMEs by issuing security certificates to the banks. Moreover, some interviews with the SME owner-managers mentioned that Islamic banks should finance start up SMEs and accept any type of collateral.

Interestingly, one of the *Sharia* board members provided important further insight into this. He claimed that, although the Islamic banks comply with Islamic law, Islamic banking nowadays does not comply with the objectives of Islamic law (*maqasid al Sharia*) and the theory of Islamic finance. This is because most Islamic banks now use products which involve less risk and fast profit and look for short term products which avoid long term finance. Banks are considered to be the best parties to provide finance and services to SMEs, however in reality they are unwilling to expand their lending in this field. This finding supports the work of Hassan, (2008, Shahinpoor (2009), Khaled (2011), Oseni et al. (2013), and Ali (2013), who found that there is still no favourable environment in which Islamic financial institutions can play a vital role in the development of SMEs.

Therefore, it is suggested that it should be mandatory for the government to act as a strategic partner with Islamic banks to resolve this problem by encouraging banks to provide finance for SMEs. The government should provide security certificates to the banks so that the banks can finance SMEs.

9.2.4 Finance obstacles for SMEs

This study has shown that the majority of the respondents from the three groups believed that access to finance was one of the most formidable obstacles facing SMEs in Kuwait. This finding supports the studies by Cowling (2012), Dong and Men (2014), and Shaban et al. (2014), who found that SMEs are less likely to have access to finance when compared to larger companies. Also these findings are similar to those of several studies by Benzing et al. (2009), Hassane (2014), Huda (2012), and Hanedar, Braccardo and Bazzana (2014), Islam et al., (2014), who argued that borrowing difficulties can be one of the main obstacles to starting and running an SME because of the information asymmetry between lender (the bank) and borrower (the SME).

Furthermore, respondents from the SME owner-manager group agreed that Islamic banks in Kuwait do not finance start-up SMEs; only specialised SME financial institutions such as the Kuwait Industrial Bank and the Kuwait Small Project Develop Company (KSPDC) do this. Moreover, SME owner-managers claimed that it is difficult to obtain finance from specialised SME financial institutions because of the condition that they should be free from work or be able to leave their existing job; not all people are able to bear the risks of leaving guaranteed work for unknown and unguaranteed work. However, it seems that the new National Fund law not only addresses the condition that the SME owner-manager should be free of work but also gives encouragement to government sector workers to work in the private sector.

The new fund legislation tries to solve this problem, by offering specified salaries for full-time entrepreneurs, equivalent to those their counterparts in qualification and experience appointed in a government job would receive in accordance with the provisions of civil service law, adding an achievement incentive to be deducted from the profits generated by the project for a period not exceeding three years from the start date of the project. However the findings of this study suggest that this method would not contribute to the building of successful SMEs, because the SME owner-manager, at the first sign of difficulty, would look to return to his old job.

Analysis of both SME owner-managers' and bank managers' responses indicated that chief amongst financing obstacles is lack of collateral because most SMEs cannot offer collateral to the banks. Therefore, support from government is needed so that Islamic finance institutions can meet the SMEs' needs.

The bank managers and *Sharia* board members recommended various solutions to the obstacles to financing SMEs. However, all of the solutions suggested were solutions or alternatives to the collateral problem, which is the key element amongst the obstacles to finance. The *Sharia* board members suggested that the government should provide security certificates and the bank managers suggested that *musharaka* contracts should be used.

Collateral, business plans, financial statements, and family name and personal relationships are the main elements that influence financial institutions when financing SMEs. The following sections will address this point from the perspectives of the three interview groups.

9.2.5 Collateral

It is clear from the literature that collateral is one of the main problems facing SMEs when obtaining finance from banks. Beck et al. (2006), Smolo & Ismail (2010)), and Oseni et al (2013) examined twelve obstacles to finance and found that collateral requirements were the third most important of these.

The data from the study shows that the Central Bank obliges banks to request collateral when financing SMEs. However, some SME owner-managers claimed that banks require collateral that is many times higher than the value of the loan. The bank managers, on the other hand, consider collateral to be a good indicator of the ability and serious aims of the SME owner.

The in-depth semi-structured interviews with the SMEs owner-managers provided the interesting finding that there is a correlation between obtaining collateral and the personality of Kuwait's young people; Kuwaiti banks insist that collateral is necessary because many young people take the decision to establish an SME within only a few

days, without having first studied the risks and other matters involved. Therefore, banks in Kuwait require collateral to secure a loan. This finding supports the studies by Steijvers, et al.,(2010), Fredriksson and More (2014), and Handar, Broccardo and Bazzana (2014), who found that bank risk is mainly explained by the characteristics of customers.

Furthermore, the results reveal that banks in Kuwait consider lending to SMEs to be a high risk activity. However, the study suggested that sometimes banks finance SMEs without collateral and sometimes with collateral that is many times higher than the loan. Additionally, some interviewees claimed that they had witnessed cases where banks refused to finance SMEs even when the SME owner offered collateral higher than the loan. The reason for that was related to the asymmetric information problem; banks mitigated this problem by asking for collateral or by using the relationship, which play a significant role in Kuwait. This result agrees with Steijvers et al. (2010), Han et al. (2012), and Cowling et al. (2012), who claimed that collateral and relationship with the banks play a noteworthy role in solving asymmetric information.

Moreover, some interviewees suggested alternatives to collateral, especially when the SME owner-managers have none to offer, either because they are new university graduates or for other reasons. The three groups suggested *musharaka* as an alternative.

The bank manager respondents suggested that banks could use the asset that the banks finance as collateral for the loan. This finding corroborates the findings of Shaban et al. (2014), who concluded that the Islamic banks use *murabaha* contracts when financing SMEs; the banks buys an asset on behalf of the client and sells it to the client at a mark-up price. Until the terms of the contract come to an end, the bank maintains ownership of the asset (collateral-by-contract). In such cases, the SME owner-manager does not need to provide any collateral.

The *Sharia* board members and SME owner-managers suggested some solutions, rather than collateral, where banks could use a low risk contract, such as leasing; also banks could use *musharaka* contracts. The *Sharia* board members suggested other

alternatives to collateral; namely, that banks could establish an independent institution to act as guarantor for the SMEs seeking bank finance, or use Takaful insurance.

Findings of this research suggested that banks should use collateral-by-contract, and the new fund law agrees with this idea by suggesting that the guarantees are calculated on the basis of the fixed and movable assets of the projects and that these may be pledged as a security for the loan.

9.2.6 Business plan

Data indicated that business plans are important for obtaining finance from banks. However, SME owner-managers argued that they are not only important in this way but also important for the SMEs themselves. Moreover, bank managers indicated that business plans are extremely important as prerequisites for obtaining finance because they help banks to explore the experience and ability of SME owner-managers.

Although, the findings of this study showed that the business plan is important to SME owner-managers and banks, none of the Islamic banks in Kuwait would finance an SME based solely upon this document; they believe that other things are more important, such as collateral, financial statements and credit histories. This finding agrees with that of Ajlouni (2006) and Richbell, Watts and Wardle (2006), Abdesamed & Wahab, (2014), who found that business plans are important prerequisites from a sophisticated and theoretical viewpoint but that in practice they are not expected for SMEs.

Respondents suggested many things that should be included in the business plan, such as the sources of raw materials, the number of workers, the time plan, the capital for the project, expected risks and the expected future returns.

Findings of this study suggested that one of the problems faced by SME owner-managers is their lack of experience in starting-up and running an SME, which affects the preparation and execution of the business plan. This finding is in line with Ibrahim (2010) and Alnajem, (2014), who found that SME owner-managers in Kuwait often have weak management skills, leading to a lack of planning. Therefore, it is

recommended that entrepreneurs should study their business field in detail and take time to develop a strong business plan. Furthermore, it is suggested that the financial and learning institutions should offer classes and training courses in: how to write a business plan; how to conduct extensive research into the business field; government rules and regulations; and possibly planning which offers a clear, short, straight line to success. Therefore, the new National Fund Law agrees with this finding by promising to offer a training and educational programme, with the assistance of the supporting institutions, to include administrative, marketing, financial and economic aspects.

9.2.7 Financial statement

Data suggested that, although the Central Bank of Kuwait stipulates that banks cannot offer finance without having first seen three years' financial statements, approved by an external auditor, two of the *Sharia* board members suggested that financial statements are not in fact trusted and are not vital to the banks. The reason for this, as identified by some of the SME owner-managers, is that there is strong evidence that financial statements are manipulated by some accountants. Because of this, these documents are not reliable and are insufficient on their own for an SME to obtain finance from the banks.

9.2.8 Family background and personal relationships

There were important findings about the role of family background and personal relationships in terms of dealing with banks. Findings suggested that there is overall agreement between the three groups that family background and personal relationships can affect loan approval. However, two bank managers believed that there are other trends that are more important. In general, bank managers were careful in their answers and tried to avoid direct responses with regard to the effect of these two factors in relation to loan approval.

One of the respondents from an SME described his experience with one of the specialised SME financial institutions that support SMEs in Kuwait. The respondent claimed that he had met all of the institution's requirements in order to obtain finance for his projects, that he had provided a business plan and collateral and had tried to draw

finance from the banks, but after two years the banks still would not agree to finance him. After that, he used a personal relationship to gain approval for the loan. Furthermore, one of the other respondents claimed that the banks had financed his projects only because of his name and his family's history with the bank. The banks did not ask him about his business plan, collateral or financial statements. These two cases may suggest that family background and personal relationships affect the banks' decisions to approve loans.

This result confirms the findings of Steijvers et al. (2010), Han et al. (2012), and Fredriksson & more (2014), who found that relationships played an important role in dealings between the banks and the SMEs, because banks are able to benefit from long-lasting relationships with SME owner-managers.

From the findings, some SME owner-managers and *Sharia* board members believed that finance that depended only upon family names and personal relationships was not a good thing and could lead to racial discrimination in the future. However, there are two convincing reasons, one put forward by bank managers and one by a *Sharia* board member, why banks sometimes depend on family name when financing SMEs.

The first reason, suggested by the bank managers, was that banks always look out for both the public interest and for benefit to the bank. Although the financing of SMEs based on family name is considered risky, if aspects such as the profit generated from a long relationship between the banks and the SME owner-manager are taken into account, there is likely to be a greater benefit to the banks.

The second convincing reason, suggested by one *Sharia* board member, was that family name in Kuwait is considered by the banks to be a guarantee in itself; families protect their reputation which is important to them. Most families could not bear to see a relation go to jail because they had taken funds from the bank and had not repaid them.

Furthermore, it appears that family background and personal relationships can have an effect upon loan approval. However, this finding is not consistent with Islamic theory

which says that all people are equal and should be treated equally, as the Prophet Muhammad (peace be upon him) said:

“No Arab has superiority over a non-Arab and no non-Arab has any superiority over an Arab; no dark person has superiority over a white person and no white person has superiority over a dark person. The criterion of honour in the sight of God is piety.”

The research found that the financial institutions should use financial standards to choose between the projects, and this finding agrees with the new National Fund Law. The new fund introduces standards for selecting the projects that should be financed by setting out the following considerations:

1. Projects that give the most added value and serve the development of the national economy with diversification of income, and that provide the most job opportunities for Kuwaitis.
2. Encouraging self-employment and contribution to the development of the work force.
3. Selecting the projects that most commonly use local products and technologies to increase their added value.
4. Projects that are mostly environmentally friendly.

To sum up, some respondents claimed that accountants manipulate financial statements, and furthermore, that none of the Islamic banks in Kuwait finance SMEs based solely on the business plan. Therefore, banks require collateral that is many times higher than the value of the loan. However family background and personal relationships can affect the financial institutions' decisions when approving loans. The relationship between SME owner-managers and financial institutions is often characterized by asymmetric information and moral hazard problems and from the above data it was clear that banks in Kuwait have problems dealing with financial statements. Banks can not trust information provided by SMEs or shown in their business plans. Therefore, banks require collateral to secure loans, although it has been widely recognised that family background and personal relationships with banks can help to reduce collateral or even lead to be financed without collateral. This finding agrees with Steijvers et al. (2010), Cowling et al. (2012), and Han et al. (2012) who claimed that the pledging of collateral to secure loans is common, and that banks may mitigated information asymmetries and moral hazard problems by use of collateral.

However, not only collateral is expected to have a mitigating effect on information asymmetries; relationships with banks could also play a role in solving asymmetric information problems.

This study is among the few study that address the issue of agency relationship theory in Islamic finance, for SMEs in general and specifically in Kuwait. Agency theory explains the organization of the relationship when one agent determines the work and another undertakes it (More 2002; Aljifiri, 2013). The study found that the agency relationship problem has an additional dimension in Islamic Finance.

Islamic finance limited the problem in agency relationship because of the following reasons:

1-All Islamic contracts are based on Islamic law as well as on commercial terms. They also include moral and ethical elements (Ali, 2013).

2-In profit and loss sharing (PLS) arrangements, such as Musharaka and Modaraba, all partners are entitled to a share of the profits and losses. This allows for a better flow of information between principal and agent due to the nature of the partnership, thus mitigating information asymmetry (Huda, 2012; Aljifiri, 2013).

3-Islamic contracts such as Murabaha, which is based on collateral-by-contract, and Ijarah diminish the asymmetry of information and reduce risk, because the financial institution maintains ownership of the asset until the end of the contract (AAOIF, 2014; Shaban et al., 2014) thus reducing the agency theory problem.

4-The presence of the sharia board acts as an important layer of checks on all the activities of the institution. Furthermore, Islamic finance law prohibits all kinds of *garar* (ambiguity) and gambling, so protects the two parties of the contract and balances the commercial and social aspects of business activities. It also endorses all the activities and transactions based on Sharia principals, consequently reducing the problem of moral hazard (Shahipoor, 2009).

9.2.9 Government intervention

The literature review shows that the Kuwaiti government took the decision to allow and encourage young people to shift away from their favoured form of employment, in government jobs, into the private sector and self-employment.

Analysis of the three groups indicated that the government needs to intervene to encourage SMEs and should play a key role in supporting the SME sector in Kuwait. Although the government had implemented some support measures for SMEs, the findings of this study showed that they were insufficient, unsuccessful, and did not meet the needs of the sector. This finding supports the opinions of Atamime (2013) and Alnajem (2014), who noted that the Kuwaiti government has a set budget for the funding and support of SMEs. However, this effort will not help to boost the economy as it lacks a clear strategic vision. The government is spending money in order to solve structural problems, which is not enough in itself to overcome the relative problems. The present finding appears to suggest that there is a level of agreement between the groups regarding licenses and official papers. All respondents believed that the government should facilitate and smooth the procedures in terms of licenses and official approval.

The in-depth semi-structured interviews provided more insight into the government intervention. Respondents from amongst the SME owner-managers agreed that the intervention of the Kuwaiti government in support of SMEs was still limited to offering finance through specialised SME financial institutions. However, some important roles that could be played by government were proposed by the SMEs; namely, providing land for their use, supporting SMEs through government contracts, and the establishment of SME incubators.

Furthermore, bank managers wished that the government would enact a special law for SMEs and would issue security certificates to allow them to take loans from the banks.

Sharia board members agreed with bank managers that the government should introduce a law for SMEs and that it should make links between the educational institutions and the needs of the labour market.

This result supports other outcomes of the study, mentioned in Section 9.2.3, that the government should be the key player in the SME sector.

Therefore, it seems that government procedures with regard to obtaining licenses and official approval are the greatest obstacles, and that this problem requires rapid intervention from the government.

This finding supports the findings of Smallbone and Welter (2001), Steijvers et al. (2008), Benzing et al. (2009), Lee, Sohn and Ju (2011), and who stated that it is important for government to intervene, together with all the support institutions, for the survival, growth and development of SMEs, and that this intervention should include initiatives for providing access to finance, addressing the skills shortage, and for SME policy development. An ability to address the challenges faced by SMEs will result in their increased performance. It could also be suggested that the government should establish special institutions for SMEs that establish incubators that could assist with finance, training, and licensing the SMEs.

One of the advantages of the new National Fund Law that agrees with the findings of this study is the establishment of SMEs incubators. The new fund suggests that the incubator system should provide the following services during the project support phases:

1st Phase:

- a. Training support through cooperation with the supporting foundations and the institutions specialized in the areas of the fund's business to provide appropriate training and developmental training programmes for entrepreneurs.
- b. Research support through the preparation of research and studies that assist entrepreneurs to convert their ideas to workable projects.

2nd Phase:

- a. Technical and consultative support through providing all technical consultancy to entrepreneurs during the incubation period.
- b. Incubation is of two types, internal and external.
 1. Internal incubation: where logistic support is provided through the provision of a place for hosting the project for a specific period, to be determined by the fund and the incubator as per the development and growth of the project. During this incubation period, all facilities required by the project are provided, then it turn to external incubation.
 2. External incubation: where entrepreneurs establish their private project outside the hosting place of the incubator taking advantage of all types of financial, technical and consultative support offered by the fund including the provision of the land required for the continuation of the project.

3rd Phase:

1. Linking the projects with each other as well as linking them to existing projects for the benefit of the projects' growth and serving the national economy.
2. Holding seminars, exhibitions and conferences that aim to promote the growth and development of the projects.
3. The fund may entrust the incubator to manage the project on behalf of the entrepreneur if the latter faces a temporary obstacle preventing him from managing the project in a proper and correct manner.

9.2.10 The Manpower and Government Restructuring Programme (MGRP)

The research found that the majority of the three groups believed that the Manpower and Government Restructuring Programme had a positive impact on SMEs and had encouraged them through the monthly salary.

Some respondents, from amongst the SME owners and the bank managers, saw the monthly salary as advantageous for SMEs because it encourages people to work in the private sector, of which SMEs are a part. On the other hand, two respondents, one from the *Sharia* boards and one of the SME owner-managers, recognized the monthly salary as a disadvantage because it encourages phantom employment. Because

companies must employ Kuwaiti nationals to obtain licenses and to obtain government contracts, this forces many to recruit Kuwaiti nationals because it is in the common interest of both parties. For this reason, the research decided not to use the employment standard as a definition for Kuwaiti SMEs.

9.2.11 The new Kuwaiti fund

The literature review indicated that formal finance accelerates the growth of SMEs. As a result, the enhancement of formal access to finance for SMEs creates the necessary tools for the government to achieve supportable economic growth (Shinozaki, 2012). The government's aims for the new fund are to include industrial, business, farming, handicraft, service, and any other economic projects which directly contribute to the development and diversification of national income sources and meet the needs of local markets as well as providing job opportunities to citizens (KAMCO, 2010; Ibrahim, 2010).

Data shows that although respondents from the three groups were aware of the new fund that the government had established with two billion KD, most of them were not in possession of the detail, so that a number of valuable suggestions on how the government should use the fund, it can be analyse the suggestion on three section the first section about the way of the finance, the second suggestion was about the way that fund should operate, the third section was about some suggestion to solve some problem that SMEs faces

Respondents from the SME owner-managers' group expressed the opinion that the fund should use the *musharaka* form of contract, and that the fund should also benefit from the banks' experience and the existing specialised SME financial institutions that finance and support SMEs.

On the other hand, respondents from the financial institutions agreed that the fund should not be used directly to finance SMEs. Instead, they proposed that it should give money to the banks and to existing specialised SME financial institutions so that they could finance SMEs, because they have experience in both finance and the SME sector.

Moreover, one of the *Sharia* board members suggested that the Kuwaiti government should not distribute its efforts by increasing the number of institutions that support SMEs but should establish one institution that should be responsible for the entire sector.

From the findings of this study, there is strong evidence that the lack of access to finance is an obstacle for SMEs in Kuwait. Also the bank managers claimed that without government support the banks would not be able to finance the SMEs. Therefore, all the respondents believed that the fund could help the SME sector by activating the venture capital market. This finding is in agreement with Venckuviene and Snieska (2014), who indicated that the government are sponsored to establish venture capital fund to finance SMEs.

9.2.12 Challenges faced by SMEs in Kuwait

One of the desired objectives of this research was to highlight and uncover the most common finance problems and challenges faced by SMEs in Kuwait. Responses from SME owner-manager and the bank manager groups show that the SME sector faces many challenges that can be divided into four categories:

The first category of obstacles relates to SME regulations: Respondents from SMEs and the banking sector claimed that there is no special regulation for SMEs in Kuwait. Some SME owner-managers said that there are conflicts in some of the legislation within different government agencies. Therefore, SMEs suffer from a lack of regulation. Employment regulations, for example, are considered to be one of the major obstacles faced by Kuwaiti SMEs because official bodies are unable to assess the needs of workers.

The second category of obstacles is related to government procedure. The bureaucracy in official documentation and in obtaining a licence requires time and effort on the part of the SME owner-manager to enable him to fulfil all of the official requirements. The licenses have to be collected from several government agencies. Therefore, many respondents believe that there is a lack of care and serious intent on

the part of government since there is no specialized authority that evaluates and supports SMEs' needs. Thus, SME owners suffer from unfair competition of large enterprises.

The third category of obstacles relates to SME owner-managers; most of them suffer from a lack of experience and of information about the field of business; many SME owners in Kuwait do not know where to start.

The fourth category of obstacles relates to the Kuwaiti business environment. Most respondents from the SME owner-manager group argued that in Kuwait there is a lack of finance and of land for SMEs, and this leads to high rents. This is in agreement with Ibrahim (2010) and Alnajem (2014), who argue that in Kuwait it is difficult to obtain credit facilities and the necessary funding from financial institutions.

Nevertheless, the findings suggest a worthy solution to this problem. One of the SME managers proposed that all the government agencies that are involved with obtaining licenses should be in one place. This solution would solve a part of this problem. Subsequently it could be suggested that the government, in order to help the SME sector, should establish a specific institution for SMEs that could provide information on regulations, standards, and marketing issues, and could advise on business planning, marketing, accountancy and finance.

These results agree with those of many previous studies, especially with regard to obtaining official papers and licenses, as SME owner-managers indicated that this consumes a great deal of their time. They also face challenges due to the shortage of trained and expert workers and the high cost of raw materials (Benzing et al., 2009; Ibrahim, 2010; Alhajeri, 2012; Alnajem, 2014).

In summary, the removal of these obstacles which affect the SME sector would contribute meaningfully to the improvement of the national economy. The SME sector are major suppliers to large projects, helping to solve the problem of over dependence on oil as the only source of income for the Kuwaiti government. The removal of these obstacles would also contribute to providing job opportunities for young people and solving the problem of reliance upon government jobs.

There are similarities between the solutions suggested in this study and the solution in the new national fund law. The findings suggested that the SME owners should complete all government papers and all official documents in one place, whilst the new fund legislation says that application submission should be in a service hall where all procedures are finalized and a dated receipt handed to the applicant. The date of this receipt will determine the start of the period following completion of the transaction.

Also, the Fund shall have an operation room which comprises offices that represent each governmental entity that is related to the procedures of project establishment and labour licensing. The completion of the transactions should not exceed 30 days from the date of approval of the project.

Furthermore, the respondents suggested that the government should offer the land for SMEs. The new law addresses this point in the following way:

“Effective from the date of issuing this Decree, the State allocates lands with an area not less than five million square meters to the Fund increaseable at the Fund’s request to be distributed over regions to serve the activity of the Fund to be geographically distributed according to its plans provided that each region shall include an incubator, a commercial complex and plots for exercising the activities established in this Decree.

The state undertakes the provision of these lands with the facilities and the infrastructure as well as distributing, planning and allocating them to be utilized and to establish these projects on standard developmental terms to be decided by the Board of Directors. The BOD determines the extent of the lands allocated for each project and its location as per the project’s requirements and the nature of its activity.”

9.3 Kuwait Islamic financial institutions

This section of the research is mainly concerned with the second research question of the study which was: How do Islamic finance institutions meet the needs of SMEs in Kuwait? Some researchers have found that the development of Islamic banking in Middle-Eastern countries leads to higher banking sector growth as measured by the volume of private or bank deposits scaled to GDP (Gheeraert, 2014). Consequently, this section reviews how the development in the Islamic finance sector in Kuwait meets the needs of SMEs.

9.3.1 Difficulties facing banks in Kuwait when financing SMEs

Findings of this research suggested that SMEs will struggle to find access to finance in Kuwait, furthermore, Kuwaiti banks are unwilling to finance and to support them.

It is also apparent from the findings that banks and financial institutions face difficulties when financing SMEs. The data shows that the most important of these difficulties can be divided into three categories:

The first category of difficulties relates to the SME owner-managers. For example, SME owner-managers cannot provide collateral, many lack management skills, and often they fail to submit financial statements and other information about the project on time. This means that the SME owner-manager has more information than the financial institution. From the literature, this is referred to as asymmetric information and is considered to be one of the most significant problems faced by SMEs. This finding is in line with those of Steijvers et al. (2010), More, Fink and Kautonen (2012), Cowling et al. (2012), Dong and Men (2014), and Huda (2012), who suggested that asymmetry of information between the banks and the SMEs limits the availability of credit.

The second category of difficulties relates to the project itself. The majority of respondents from the financial institutions suggested that some projects are not economically feasible, either because of their competitors, or sometimes because the project cannot provide the necessary raw materials, therefore the bank managers and also the *Sharia* board members agreed that lending to SMEs is risky. This point of view agrees with that of Alnajem (2014) who suggested that many SMEs launched during the past two decades, which received favourable state finance, such as restaurants, cafes, beauty parlours and medical clinics, do not have economic merit and lack any significant chance of success.

The third category of difficulties relates to government and legislation. All of the bank managers claimed that there was no support from government which would encourage banks to finance SMEs. Lending to SMEs is risky, and without such support, the banks are unwilling to take that risk.

9.3.2 Financial resources available to SMEs

Data shows that although the Kuwaiti government has established institutions to finance SMEs, SME owner-managers are not satisfied with the financial resources available to them. This is either because the Islamic banks in Kuwait do not have an appetite to finance SMEs, or because the available sources are not appropriate to the financing of SMEs because the financial institutions seek high profit margins.

The finding from the SME owner-managers would appear to be at odds with the finding from the bank managers who indicated that financial resources available to the SMEs in Kuwait were adequate, because there are several institutions which support SMEs, including banks and specialised SME financial institutions, alongside self-financing and finance from relatives.

In addition, the data found that many banks in Kuwait, such as the Kuwait Finance House and Boubyan Bank, have special departments for financing SMEs. However, banks are less interested in financing SMEs than specialised SME financial institutions.

The research shows that financing SMEs is considered to be risky. Also the research found a link between high discount rates (interest ratio) and high risk. Whenever the discount rate is high, this encourages the banks to take high-risk projects and finance SMEs. This explains why banks in Kuwait have special departments for financing SMEs, yet they refuse to do so. This is because the Central Bank in Kuwait determines the discount rate for a loan and, since banks cannot change the discount rate, they refuse to finance SMEs.

On the other hand, the research found that high profits are one of the problems faced by SMEs when obtaining finance. This finding is corroborated by Beck et al. (2006), who suggested that high interest rates are top of the list of specific finance obstacles.

Therefore, the findings suggested that the government should increase its efforts to support and finance SMEs, and this is in line with the new fund legislation because the

main aim of the new fund is to finance the SMEs with low profit margins. According to the law: the fund finances the project to a percentage not exceeding 80% of the project cost. The finance shall be by cost fee not exceeding 2% of the finance value to cover the expenses of the fund.

9.3.3 Financial products

Findings show that there is overall agreement between the three groups that Islamic financial institutions have many kinds of financial product that can be used to finance SMEs, such as Leasing, *murabaha*, *musharaka*, *istisna* and *tawaroq*.

Data analysis shows that *murabaha* contracts are considered to be the most available products for SMEs in Kuwait. This result is in agreement with the findings of Shahinpoor (2009), and Aljufri and Khandelwar (2013) Naceur et al.,(2015), who found that *murabaha* (cost plus mark-up) is thought to be less risky and expected to increase the level of information sharing used by Islamic banks when the profit-loss sharing methods (*musharaka* and *Mudarabah*) cannot be used. Also, the *murabaha* model is more favourable for both the borrowers and the lenders when compared to the profit-sharing model.

Furthermore, the data found that all the existing specialised SME financial institutions, such as the Kuwait Industrial Bank and the Kuwait Small Project Develop Company (KSPDC), use Islamic finance instruments to finance SMEs – for example, *murabaha* and *musharaka*. Furthermore, from the previous findings, the majority of respondents preferred Islamic financial instruments. Therefore, findings of this study do not agree with the approach adopted by the new fund law because the new fund will finance SMEs using commercial loans, not Islamic financial instruments.

9.3.4 Prerequisites for obtaining SME finance

Findings from SME owner-managers and financial institution managers show that the vast majority of financial institutions look at the same things when financing SMEs. Official company papers were the items most required, followed by financial statements and collateral.

Findings also indicated that specialised SME financial institutions only finance Kuwaiti citizens who are over 21 and who are able to dedicate themselves full time, after approval of finance, to the project. Therefore, specialised SME financial institutions do not finance workers who are employed in the government sector. The prerequisites of the new national fund correspond with the findings of this research. The new fund requests the following before it will issue finance.

- 1- The project owner should be a Kuwaiti national, whose age is not less than 21 calendar years.
- 2- The SME owner must have a good reputation.
- 3- The economic feasibility of the project should be assured.
- 4- The cost of the project establishment should not exceed an amount of (KWD 500,000) five hundred thousand Kuwaiti dinars.
- 5- The owners of the project shall be committed to employ Kuwaitis in accordance with the time frame specified by the Board of Directors of the fund.

One of the main findings of this research is that specialised SME financial institutions do not finance government workers; they have to be free of work. The new law addresses this issue with a ruling that

“If he/she is an employee in the government sector, he/she will be granted, upon his/her request, leave for being free that does not exceed three years. In such a case, he/she will be exempted from restriction of his participation in the establishment of the commercial companies stated in the Civil Service Law and its regulations, provided that the project shall be handed to the Fund in case he/she abandons the project and returns to public employment.”

9.3.5 Compatible financial institutions

According to data analysis, financial sources are limited and unsatisfactory for SME owner-managers. However, the owner-managers and bank managers agreed that specialised SME financial institutions such as the Kuwait Industrial Bank and the Kuwait Company for SMEs are more compatible than other Islamic banks.

In addition, the majority of respondents from the SME owner-manager group suggested that the Kuwait Industrial Bank (a specialised SME financial institutions) is

the most compatible institution because it takes only a low profit in return. Furthermore, the Kuwait Industrial Bank uses *murabaha* contracts also used the asset that banks is finance as collateral, therefore, SME owner-managers do not need to offer more collateral. Moreover, the Kuwait Industrial Bank uses *qard hassan* as a follow contracts for those who need it.

This result confirms other results in this study which indicate that collateral and high profit are the greatest obstacles for SMEs seeking finance. Therefore, SME owner-managers mentioned these elements as advantages of the Kuwait Industrial Bank.

9.3.6 A specific financial institution for SMEs

All respondents believed that it would be a good idea to develop a specific financial institution for SMEs because, as discussed in Section 9.3.5, the banks are not the right place to help the Kuwaiti SME sector; specialised SME financial institutions are more compatible with SMEs.

This agrees with the argument by Shahinpoor (2009), who claimed that the formal financial sector in the Middle East and North Africa has played a very limited role in the development and financing of SMEs. Most banks in this area are not equipped to finance SMEs because the financing of SMEs is not profitable.

In addition, the findings suggest that in Kuwait there is no specific institution that is responsible for SMEs. This is in line with Alhajeri (2012) and Ibrahim (2010), who found that there were nine institutions that supported SMEs – divided between finance institutions, support institutions, and regulatory institutions – and that there was poor cooperation between them. This suggests that SME owner-managers have to deal with several institutions in order to obtain licensing and their financial requirements, which consumes a great deal of time and effort. Therefore, it is suggested that the government should establish specific institutions for SMEs that provide training and finance and deal with all licensing issues.

9.3.7 The Kuwaiti finance environment for SMEs

The literature review and the Industrial Bank of Kuwait annual report (2013) show that the government is working on increasing the contribution to GDP of the non-oil industrial sector. The government created the Public Authority for Industry to monitor the sector's activities and established the Industrial Bank of Kuwait and the Kuwait Small Project Development Company with the objective of providing finance to SMEs.

The data found, however, that some amongst the SME owner-managers believed that the environment of the Kuwaiti financial sector was incapable of absorbing more SMEs and guiding them towards a long and successful life. This was partly because the SMEs in Kuwait face many obstacles, but was mainly due to the lack of financial resources. This finding agrees with Alnajem (2014) who claimed that Kuwait does not have a healthy business environment, especially when compared to the GCC countries, due to the lack of a government strategy to support SMEs.

In contrast, some respondents from the banking sector and from the *Sharia* boards believed that the Kuwaiti finance sector environment was indeed capable of absorbing further SMEs and guiding them towards a long and successful future, as evidenced by many existing successful SMEs in Kuwait.

Consequently a major role is played by finances in the development of each and every SME. It could be argued that the SME sector is assuming strategic importance in the development of the non-oil sector of the economy, and the government is responsible not only for establishing a programme to finance SMEs, but also for understanding the degree of the challenges faced by SMEs.

9.4 Islamic finance and further support for SMEs

The literature review shows that in Islam there is no separation between religion and state. The Islamic religion affects the decision making of its followers in every context of their daily activities, including business practice. This influence is well known from the Holy Quran and Sunah, which are the main sources of business ethics in Islam.

Many Islamic business values, such as justice, socio-economic benefits, and human well-being, are central to corporate social responsibility (Aribi & Gao, 2011). This motivated the researcher to investigate how Islamic finance institutions can develop

further support to meet the needs of SMEs in Kuwait. Shahinpoor (2009) claimed that the link between SMEs and the Islamic finance institutions has not been clearly established in the literature and this is an important point to articulate so that many more services can be offered to SMEs. Furthermore, Oseni et al. (2013) claimed that, since the financial crisis, the Islamic finance products that are based on profit and loss sharing have augmented the interest of many European countries.

9.4.1 New Islamic legislation

The majority of the SME owner-managers claimed that the new Islamic legislation for establishing Islamic banks in Kuwait would not be helpful to the SME sector. One respondent stated that this was because the Islamic banks search for low risk and short term financing and this corresponds with the needs of the SMEs. Another SME owner-manager believed that larger companies are given all the benefits in comparison to SMEs, particularly with regard to obtaining finance.

On the other hand, the bank managers and *Sharia* board members believed that the new Islamic legislation for establishing Islamic banks would be helpful to the SME sector.

9.4.2. Islamic finance instruments

The findings suggested that the majority of the three groups believed that the Islamic instruments were more suitable than commercial instruments. One of the SME owner-managers indicated that there is development through new and diverse products such as *istisna* and there are new products and instruments that appear in the market from the Islamic institutions. On the other hand, one bank manager felt that Islamic finance instruments were better as they contained a hedge to the banks, because the Islamic banks finance the purchase of assets, whereas the commercial banks will finance as a loan so that the SME owner-manager will reserve cash. This finding is in line with Oseni et al. (2013), Bazza et al., (2014); Naceur et al., (2015), who suggested that the Islamic finance instrument, the profit and loss sharing method of finance (PLS), is perceived to have many business and economic advantages for SMEs. The interest-based methods of finance, on the other hand, are perceived to have many disadvantages for SMEs, as the strict criteria of loan disbursement causes them to

have little access to credit. In addition, high interest charges may contribute to the problem of default in the repayment of loans. As for Islamic credit financing, the method is perceived to be profitable due to its fixed nature of repayment.

On the other hand, some SME owner-managers and some bank managers believe that Islamic instruments are more suitable from a religious point of view. One of the SME owner-managers said that he sees the similarity between the currently applicable Islamic finance tools and the traditional banks, after excluding the legality of the transactions, in terms of procedure and policies. This point of view supports Gheeraert (2014), who found that religious people were willing to pay a premium for Islamic instruments, whereas people who were indifferent to religion might deal with different banking products in both the Islamic and commercial banks.

Surprisingly, a semi-structured interview with one of the *Sharia* board respondents indicated that he believed in the team of the technical side the finance cost and the collateral in the Islamic banks are higher than the commercial banks.

Khaled (2011) and Aljifiri and Khandelwal (2003) claimed that there is a gap in the literature that addresses the link between agency theory and Islamic finance contracts. In addition, the work of Aljifiri and Khandelwal (2003) says that Islamic finance contracts limit the problem of agency theory. The findings of the research agree with these points because most Islamic finance contracts pass on profit and loss sharing and this allows a better flow of information between the SME owner and the financial institution, thus reducing information asymmetry. Also because Islamic finance contracts passed on moral and ethical element not only commercial terms, according to the *Sharia* law all contracts either product or service that is bought or sold must be clear to both parties this help to reduce the risk of asymmetric information and moral hazard.

However, the analyses of the three groups show the difference between theory and practice; SME owner-managers see the practice of the current Islamic banks and how they reject the opportunity to finance SMEs, whereas the *Sharia* boards and bank managers see the theory of Islamic finance and how it is appropriate to the financing of SMEs. This finding shows clearly that there are gaps between the theory and

practice of Islamic finance. This is in agreement with Al-Jarhi (2013), who claimed that Islamic finance and the Islamic economy are still, to a large extent, caged in books without being applied to real life situations, and that there are several gaps that need to be filled.

9.4.3 Leasing (hire-purchase)

The findings suggested that Leasing is one of the products used in Kuwait to finance SMEs. Also the three groups believed that leasing (hire-purchase) was a useful instrument for financing SMEs. This finding is in line with Smolo & Ismail, (2010)),

Furthermore, from the bank managers' point of view, the data showed that there are two benefits to the *ijarah* contract for finance institutions. The first is that the asset during the leasing remains under the name of the financial institution, and the second advantage is that, under *ijarah*, the two parties may agree to amend the rental for a future period. However some bank managers referred to drawbacks with *ijarah* contracts which could affect the financial institution; namely, that the leased asset is the responsibility of the lessor for the duration of the *ijarah* contract which means that the lessor (the financial institution) should bear the expenses of maintenance, insurance, and depreciation until the expiry of the contract.

The *Sharia* board members believed that the *ijarah* contract was a useful Islamic instrument for SMEs because it does not need the SME owner-manager to offer guarantees or collateral to the financial institution. Because *ijarah* contracts in Islamic finance institutions involve real transactions instead of cash, this will help to minimise and solve the moral hazard problem.

However, the *Sharia* board members suggested some weaknesses in the practice and in the law governing *ijarah*. In addition, they believed that leasing ending with ownership increased the leasing value in the market in general. This is considered to be one of the great problems for Kuwaiti SMEs, as stated in Section (9.2.10).

9.4.4 Musharaka

There was a level of agreement between the three respondent groups that *musharaka* is a useful contract for financing the SMEs of Kuwait. This finding agrees with those of Smolo & Ismail (2010) One of the SME owner-managers believed that *musharaka* was consistent with Islamic finance theory because it encourages risk-sharing between the two parties. Moreover, some SME owner-managers mentioned that *musharaka* is considered to be a long-term method of finance.

On the other hand, some of the bank managers considered *musharaka* to be a high-risk contract because the financial institutions collaborate with the SME owner-managers. In the case where the project makes a loss, the full loss does not fall on the project owner, as is the case in normal finance or bank finance.

One respondent from the financial institutions mentioned that the *musharaka* contract is an investment, not finance, because there is profit and loss sharing between the two parties. This finding is in agreement with Choudhury (2001), who claimed that in the case of *musharaka* it is possible for any of the partners to continue in sleeping partnership after they have paid their capital shares in the company. This is particularly the case with finance *musharaka*, wherein the corporation may act as an investment.

Additionally, although the *Sharia* board members agree that *musharaka* is a useful source of finance for SMEs, one of them mentioned that most Islamic finance banks do not use it; it is considered to be high-risk because all partners in the contract maintain the assets of the *musharaka* on a trust basis. Therefore, it is not permitted to stipulate that a partner in a *musharaka* contract guarantees the capital of another partner. This finding supports that of Choudhury (2001), who found that only marginal importance has been attributed to *musharaka* instruments, and not much capital can be raised from them. In addition the findings of this study support the view of Shahinpoor (2009), who argued that Islamic banks are not successful in profit-loss sharing (*musharaka* and *Modaraba*) practice when financing SMEs. This is because of the lack of success due to asymmetric information between the banks and SMEs that causes a moral hazard problem.

This finding is in line with Choudhury (2001), who suggested that profit-loss sharing had long been proposed by *Sharia* scholars (*Sharia* boards) as the method of choice

for financing SMEs. The *Sharia* scholars believe that this particular fund is able to meet the true spirit of equitable distribution of income and wealth, hence materialising the goals of the *Sharia* (*maqasid al Sharia*), and *Sharia* objectives in the economy.

The findings of this research suggested that since the financial crisis there has been a need to find reliable alternatives to the conventional system in financing SMEs that is based on collateral-based debt financing. The findings recommend that Islamic financial products that are based on profit and loss sharing that is built upon ethical business models would be a reliable alternative to the conventional system. This finding agrees with Khaled (2011), and Oseni et al. (2013), who suggested that the Islamic finance products based on profit and loss sharing have caught the attention of many European countries.

9.4.5 Zakat and charity

According to the literature and to the teachings of Islam, *zakat*, charity and *waqf* play an important role in promoting social justice as well as alleviating poverty (Kaleem & Ahmed 2010; Htay, Salman, Myint & Ilyas, 2013). Moreover, Ibrahim and Ghazali (2014) stated that in Islam there are several non-profit instruments, such as *zakat*, charity, *waqf* and *qard hassan*; all sources which can be used to help the poor and needy to develop their quality of life, but which could also be used to finance SMEs.

The study found that five out of twelve SME owner-managers believed that using *zakat* and charity would be helpful for supporting SMEs, whilst other SME respondents and bank managers did not know to what extent this idea would be acceptable from a *Sharia* perspective. However, one of the bank managers believed it was a good idea to use *zakat* but that this should be through the banking sector because it has business and finance experience.

The literature review explains that *zakat* should be spent on the eight categories of people who qualify to receive it (Samad & Glenn, 2010). However, some *Sharia* board members suggested that it might be acceptable to invest *zakat* funds after fulfilling the urgent needs of *zakat* recipients, and dependent upon the availability of sufficient safeguards against losses. Also some board members suggested that *zakat* funds could

be utilized in investment projects. However, such projects should in the end be owned by the *zakat* recipients, or placed under the supervision of a competent *Sharia* body entrusted with the collection and distribution of *zakat*. This finding agrees with Smolo & Ismail, (2010), who suggested that *zakat*, charity and *waqf* can be successfully integrated into the SME sector.

Furthermore, the theory of *zakat* is that it should change the lives of poor people and make them solvent, therefore, many *Sharia* board members believed that it was their duty to support the poor and finance them so that they could start their own SMEs. This finding supports the studies by Shahinpoor (2009), and Kaleem and Ahmed (2010), who suggested that *Sharia* promotes equality and fairness for all members of society by emphasizing ethical and social principles. Muslims have special responsibilities toward the poor and are appointed by God to be God's stewards, to maintain balance in the universe.

The *Sharia* board members suggested that it would be acceptable to use charity and *zakat* money to train and educate SME owner-managers. This result could solve the problem of the lack of experience which was mentioned in Section 9.2.12 and is considered to be one of the problems that SME owner-managers face in Kuwait.

According to the AAOIFI standards (2014), the Islamic finance institutions are required either to pay *zakat* on behalf of their shareholders or to calculate and disclose the amount payable per share in their annual reports. As can be seen from Chapter Three, most Islamic finance institutions in Kuwait pay *zakat*, on behalf of their shareholders, to the Kuwait *zakat* House. Therefore, it is suggested that the Islamic financial institutions could use *zakat* money to finance and support the SMEs.

This research contributes to our understanding of the development of SMEs in the economy by clarifying how Islamic finance institutions can further support SME growth within Kuwait using the concept of *zakat*.

9.4.6 Waqf

The literature review suggested that, from its inception, a particular *waqf* may not have been intended for charitable purposes. Furthermore, the literature indicates that it is allowable to make use of *waqf* for rich people, which means that it differs from *zakat* and charity (AAOIFI, 2014).

In the study, some SME owner-managers suggested that it would be a good idea to use *waqf* to support SMEs. Moreover one SME owner-manager mentioned that the Kuwait Awqaf Public Foundation plays an important role in developing society using *waqf* funds. This foundation does not, however, concern itself with economics; whilst economics play a positive and important role in developing society, the foundation is concerned more with education and health. Nevertheless, some SME owner-managers and bank managers were unsure whether Islamic law would allow the use of *waqf* to support SMEs.

Although all the *Sharia* board members agreed that it was permissible to invest *waqf* in the financing of SMEs and that it would be a helpful resource for this purpose, some board members thought that the investment of *waqf* should be in low risk vehicles. This finding agrees with Smolo & Ismail(2010), Hasan (2011), and Keleem and Ahmed (2010). Furthermore, some *Sharia* board members said that it might still be a problem to convince the donors of the suitability of this idea because they might not appreciate the charitable aspect of financing SMEs. The board members also suggested that it would be useful to use *waqf* money to support training and education for SME owner-managers.

This finding reflects the AAOIFI standard (2010), which states that it is permissible to invest *waqf* income in the following cases:

- 1- As per a condition stipulated by the *waqf*.
- 2- During the waiting period (prior to identification of beneficiaries).
- 3- Excess income, after payment to beneficiaries.

Investment of the income in these cases should be through *Sharia* permitted methods such as Mudarabah, *musharaka* and Leasing and should make use of low risk vehicles.

Based on the above, *waqf* could be a good and acceptable new financial Islamic method for supporting SMEs. However, the risk associated with this approach and the marketing effort to convince the donors were among the key barriers to its adoption. The findings of this study add to the understanding of the role of *waqf* in supporting Kuwaiti SMEs. This could encourage the government to adopt related policies in order to improve access to such finance. This research contributes to the understanding of the role of *waqf* in promoting and financing SMEs in Kuwait. The finding is in agreement with Smolo & Ismail (2010), and Htay et al. (2013), who state that the management of *zakat*, charity, and *waqf* helps individuals in general to establish sincerity, and the rich to develop a sense of accountability. In addition, it creates favourable conditions for the needy to recover from financial difficulties and has a positive impact upon nation building.

9.4.7 *Qard hassan*

The study concluded that the majority of participants from the three different groups perceived *qard hassan* to be a good Islamic method of financially supporting SMEs. It was shown that this instrument incurs no additional costs for owner-managers. However, the bank managers suggested that the risk associated with this method of finance was highly emphasized due to its misinterpretation by the borrowers.

The study adds to the understanding of the role of *qard hassan* in supporting SMEs in Kuwait. This could encourage the government to adopt related policies in order to improve access to finance for SMEs. The study contributes to the theory of SME development using Islamic finance methods.

The research found that there are few applications of *zakat*, charity, *waqf* and *qard hassan* in the financing of SMEs in Kuwait or other Islamic countries, although there is no doubt that they could be successfully integrated, and that the tools could be used, as an alternative to their role in poverty reduction. Moreover, the application of these tools

to the financing of SMEs, could shrink the gap between theory and practice in real life Islamic finance. This finding is in agreement with Smolo & Ismail (2010), Kaleem and Ahmed (2010), and Al-Jarhi (2013), who suggested that Islamic banking should play a meaningful role in encouraging the Islamic objectives of social justice, equitable distribution of wealth, and the promotion of economic development. The Islamic banks can turn to the alternative sources of funding, such as *zakat*, charity and *waqf*, to finance SMEs. Islamic financing theory is still to a large measure' theoretical and has still to be applied in reality.

9.5 Summary

This chapter attempted to bring theoretical relevance to the research findings, combining the results of the three groups interviewed in this study (SME owner-managers, bank managers and *Sharia* board members). The findings showed that each group provided insight into the research questions, but: the SME owner-managers provided more insight into the financing problems and challenges faced by SMEs; the bank managers provided more insight into how the Islamic financial institutions met the needs of the SMEs; and the *Sharia* board members provided additional insight into how Islamic finance could develop further support to meet the needs of SMEs in Kuwait.

The research found that the standards currently used to define SMEs in Kuwait are the right ones – those of capital value and the number of employees. Furthermore, the study highlights that SMEs should become strategic tools for addressing such challenges as the reduction of dependence upon government jobs and the reliance on oil as Kuwait's main source of income. Thus this body of work provides evidence that it is vital that the government should act as a strategic partner with the banks to support and finance the country's SME sector.

The research found that the Kuwait Industrial Bank (a specialised SME financial institution) is the institution which is most compatible with Kuwaiti SMEs, in terms of providing them with support and finance; furthermore, the data showed that it would be a good idea to develop a specific institution for SMEs.

The findings of this research suggest that Islamic instruments are more suitable than commercial instruments; moreover, they indicate that *ijarah* ending with ownership (hire-purchase), and *musharaka*, would be particularly helpful sources of finance for SMEs. The research found that *zakat*, charity, *waqf* and *qard hassan* would also be helpful, but that all of these instruments are useful in theory but absent in practice.

Chapter 10 Chapter Ten Conclusion

10.1 Overview

The main aim of this study is to evaluate how Islamic financial institutions can support SMEs in Kuwait. Perceptions of three groups' members were analysed using a qualitative approach, in which semi-structured interviews were conducted. Results of the study were presented and analysed in chapters 6, 7 and 8 and comparatively discussed in chapter 9.

This final chapter attempts to summarize the main findings of the study and to draw conclusions of the research. These findings are discussed with reference to the findings of previous research, previously presented in the literature review. It then highlights the contributions and acknowledges the limitations. Finally, it draws upon insights obtained from this research to identify implications for policy, practice, and future research.

10.2 Research conclusions

The evidence of this study suggests that access to finance remain a principal challenge for SMEs in Kuwait. The study found that collateral is one of the main problems facing SMEs when obtaining finance from banks. Data showed that the Central Bank obliges banks to request collateral when financing SMEs. However, some SME owner-managers claimed that banks require collateral that is many times higher than the value of the loan. The bank managers, on the other hand, consider collateral to be a good indicator of the ability and serious aims of the SME owner. This supports the findings of Beck et al. (2006), Smolo & Ismail (2010), and Oseni et al. (2013) who examined twelve obstacles to finance and found that collateral requirements were the third most important of these obstacles. Furthermore, the study is in agreement with the finding of Steijvers et al. (2010), Cowling et al. (2012), and Han et al. (2012) who claimed that the pledging of collateral to secure loans is common, and that banks may mitigate information asymmetries and moral hazard problems by use of collateral.

However, findings of this study further revealed that the high cost of credit, not just in the form of collateral, but also the requirement for a business plan, financial statements and credit histories has an impact on SMEs performance. Besides the identification of the assets to be offered as collateral, the production of a good business plan, and the provision of financial statements and credit histories require a considerable amount of work and cost. Therefore, it can be concluded here that the requirement for the presentation of a good business plan, financial statements as well as credit histories to the banks presents not only a financial, but also a physical and emotional pressure on business owner-managers, who normally lack previous work experience and take the decision to establish an SME within only a few days, without having first studied the risks and other matters involved. This could have an influence on the performance of SMEs owner-mangers. This supports the study of Sefiani (2013), which was conducted on the success factors of SMEs in Tangier in Morocco. In his qualitative phase of the study, Sefiani (2013) found that besides the collateral, the need to commit to the process of presenting a business plan was often a constraint for SMEs finance in Tangier.

The study further presented important findings about the role of family background and personal relationships in terms of dealing with banks. Findings suggested that family background and strong personal relationships can affect loan approval and thus enable firms to get financial resources. This result confirms the findings of Steijvers et al. (2010), Han et al. (2012), and Fredriksson & more (2014), who found that relationships played an important role in dealings between the banks and the SMEs, because banks are able to benefit from long-lasting relationships with SME owner-managers. These findings support the study of Sefiani (2013) that suggest that networking relations could provide a strong impetus for SMEs in Kuwait to be really adept at partnership working. The study further suggests the importance of relationship in a context where relationship building is central to SMEs finance.

Furthermore, the study found that the intervention of the Kuwaiti government in support of SMEs was still limited to offering finance through specialised SME financial institutions. However, there are some important roles that could be played by government through the involvement in the establishment of the incubators. The findings suggested that incubators have become an increasingly important issue for

the SMEs in Kuwait. On the other hand, bank managers claimed that without government support, the banks would not be able to finance SMEs. Therefore, all respondents believed that the fund provided by the government could help the SME sector by activating the venture capital market. These findings all highlighted the importance of collaborative working in a society that encourages the spirit of collectivism.

Furthermore, it was found that the majority of the SME owner-managers believed that banks are not the right place to finance SMEs; the respondents felt that it was easier for SMEs to obtain finance from specialised SME financial institutions than from the banks. Because most Islamic banks use products which involve less risk and fast profit and look for short term products which avoid long term finance, banks are considered to be the best parties to provide finance and services to SMEs, however, in reality they are unwilling to expand their lending in this field. For these reasons, this study has shown that the majority of the respondents from the three groups believed that access to finance was one of the most formidable obstacles faced by SMEs in Kuwait.

The research also found that Islamic banks in Kuwait do not finance start-up SMEs; only specialised SME financial institutions do this. The condition that SME owner-managers should be free from work or be able to leave their existing job cannot be met by all people; not all are able to take the risk of leaving their guaranteed work for unknown and unguaranteed work. The following in the first research question and summarizing of the outcomes:

What financing problems and challenges do SMEs encounter in Kuwait?

1	There is no official definition for SMEs in Kuwait.
2	It seems that the turnover related definition has multiple advantages for the Kuwaiti economy.
3	The new national fund does not agree with the findings of the study. The new law defines small enterprises as projects where the number of Kuwaitis does not exceed four persons and the capital does not exceed KWD 250,000.
4	Respondents from the three groups recognised that SMEs represent an important segment in Kuwait's economic growth.

5	SMEs play a major role in economic development, and contribute to the solving of unemployment and reduction in dependence upon government jobs, particularly for Kuwaiti nationals.
6	From the banks' point of view, SMEs are important because they add value to GDP. The bank managers also believed that SMEs are complementary to large businesses.
7	The <i>sharia</i> board members claimed that SMEs are perfectly suited to Islamic finance theory because the economic thinking in Islam depends on gathering work and money, money and money, work and work. These three elements achieve the most important factors in Islamic finance theory.
8	SMEs should become strategic tools in solving some of the challenges which are currently faced by the government, such as the reduction in dependence upon government jobs, and reliance on oil as the only source of income for Kuwait.
9	The government should act as guarantor for the SMEs by issuing security certificates to the banks.
10	Access to finance was one of the most formidable obstacles facing SMEs in Kuwait.
11	Some SME owner-managers claimed that banks require collateral that is many times higher than the value of the loan.
12	The results reveal that banks in Kuwait consider lending to SMEs to be a high-risk activity.
13	Some interviewees suggested alternatives to collateral. The three groups suggested <i>musharaka</i> as an alternative. Banks could require a wire transfer of all income received and could use a low risk contract, such as leasing.
14	None of the Islamic banks in Kuwait would finance an SME based solely upon the business plan; they believe that other things are more important, such as collateral, financial statements and credit history.
15	There is strong evidence that financial statements are manipulated by accountants. Because of this, these documents are not reliable and are insufficient on their own for an SME to obtain finance from the banks.
16	It appears that family background and personal relationships can have an effect upon loan approval. However, this finding is not consistent with Islamic theory which says that all people are equal and should be treated equally.

17	The government needs to intervene to encourage SMEs and should play a key role in supporting the SME sector in Kuwait. Although the government had implemented some support measures for SMEs, the findings of this study showed that they were insufficient, unsuccessful.
18	The research found that the majority of the three groups believed that the Manpower and Government Restructuring Programme had a positive impact on SMEs and had encouraged them through the monthly salary.
19	Responses from the SME owner-manager and bank manager groups show that the SME sector faces many challenges that can be divided into four categories: 1.) those related to SME regulations 2.) Those related to government procedure. 3.) Those related to SME owner-managers; most of them suffer from a lack of experience and of information about the field of business; many SME owners in Kuwait do not know where to start. 4.) Those related to the Kuwaiti business environment.

10.2.1 Kuwaiti Islamic financial institutions

Findings of the study revealed that Islamic financial institutions have many kinds of financial product that can be used to finance SMEs, such as leasing, *murabaha*, *musharaka*, *istisna* and *tawaroq*. Data analysis shows that *murabaha* contracts are considered to be the most available products for SMEs that are offered by the Islamic banks in Kuwait.

However, both owner-managers and bank managers agreed that specialised SME financial institutions such as the Kuwait Industrial Bank and the Kuwait Company for SMEs are more compatible than other Islamic banks. The low profit margins, using Islamic methods of finance, collateral-by-contract, and *qard hassan*, are the main advantages of compatible financial institutions.

Analyses of the results of this study show the difference between the theory and the practice. Whilst SME owner-managers observe the practice of the current Islamic banks and how they reject the opportunity to finance SMEs, the Sharia boards and bank managers observe the theory of Islamic finance and how it is appropriate to the financing of SMEs. This finding shows clearly that there are gaps between the theory

and practice of Islamic finance. Thus, it can be concluded that contrary to theory, Islamic financial institutions in practice have marginalized profit and loss sharing modes and instead adopted risk-avoiding modes of finance. Thus, the study paints a similar picture to the findings of Omar Farooq (2007) who argued that despite the theoretical idealization, Islamic financial institutions as businesses are rational in avoiding profit and loss sharing modes. The following in the second research question and summarizing of the outcomes:

How do Islamic financial institutions meet the needs of SMEs in Kuwait?

1	SMEs will struggle to find access to finance in Kuwait.
2	Banks and financial institutions face difficulties when financing SMEs.
3	The first category of difficulties relates to the SME owner-managers. For example, SME owner-managers cannot provide collateral, many lack management skills, and often they fail to submit financial statements and other information about the project on time.
4	The second category of difficulties relates to the project itself. The majority of respondents from the financial institutions suggested that some projects are not economically feasible, either because of their competitors, or sometimes because the project cannot provide the necessary raw materials.
5	The third category of difficulties relates to government and legislation. All of the bank managers claimed that there was no support from government which would encourage banks to finance SMEs.
6	SME owner-managers are not satisfied with the financial resources available to them. This is either because the Islamic banks in Kuwait do not have an appetite to finance SMEs, or because the available sources are not appropriate to the financing of SMEs.
7	Banks are less interested than specialised SME financial institutions in financing SMEs.
8	Islamic financial institutions have many kinds of financial product that can be used to finance SMEs, such as Leasing, Murabaha, Musharaka, Istisna and Tawaroq.

9	Data analysis shows that Murabaha contracts are considered to be the most available products for SMEs in Kuwait.
10	However, the owner-managers and bank managers agreed that specialised SME financial institutions such as the Kuwait Industrial Bank and the Kuwait Company for SMEs are more compatible than other Islamic banks.

10.2.2 Islamic finance and further support for SMEs

The majority of SME owner-managers claimed that the new Islamic legislation for establishing Islamic banks in Kuwait would not be helpful to the SME sector, because the Islamic banks search for low risk and short-term finance. However, the findings suggested that the majority of the three groups believed that the Islamic instruments were more suitable than commercial instruments.

A noteworthy finding of the study was that SMEs are perfectly suited to Islamic finance theory because the economic thinking in Islam depends on the gathering of work and money, money and money, and work and work. These three elements achieve the most important factor in Islamic finance theory: the exchange of wealth among people.

Several products were to be used by Islamic banks for SMEs finance. The findings suggested that leasing is one of the products most used by the Islamic banks in Kuwait to finance SMEs. Furthermore, using *ijarah* ending with ownership (hire-purchase) was found to be helpful as a source of finance for SMEs. One of the SME owner-managers considered *ijarah* to be an international finance system and compliant with Sharia. Another believed that it was a long-term method of finance which could help SME owner-managers to buy equipment, fixed assets, and real estate in instalments.

The data further showed that the Kuwait Small Project Develop Company (KSPDC), one of the specialised SME financial institutions that support SMEs, uses *musharaka* contracts to finance SMEs. It was also clear from the research that there was a level of agreement between the three respondent groups that *musharaka* is a useful contract for financing SMEs in Kuwait. One of the SME owner-managers believed that *musharaka* was consistent with Islamic finance theory because it encourages risk

sharing between the two parties. Moreover, some SME owner- managers mentioned that *musharaka* is considered to be a long-term method of finance.

The findings suggested that *musharaka* is a high-risk contract because the financial institution collaborates with SME owner-managers. In the case where the project makes a loss, the full loss does not fall on the project owner, as is the case in normal finance or bank finance.

The study found that *zakat* and charity would be helpful means of support for SMEs. However, some respondents did not know to what extent this idea would be acceptable from a Sharia perspective. Moreover, the research found that it might be acceptable to invest *zakat* funds in SMEs after fulfilling the urgent needs of *zakat* recipients, and dependent upon the availability of sufficient safeguards against losses. In addition, the study found that the theory of *zakat* is that it should change the lives of poor people and make them solvent; therefore, SMEs could play an important role in the fight against poverty.

In this study, the majority of the respondents suggested that it would be a good idea to use *waqf* to support SMEs. Nevertheless, some respondents were unsure whether Islamic law would allow this. However, the findings showed that it was permissible to invest *waqf* in the financing of SMEs. Nevertheless, the data suggested that the investment of *waqf* should be in low risk vehicles.

Based on the above, *waqf* could be a good and acceptable new financial Islamic method for supporting SMEs. However, the risk associated with this approach and the marketing effort to convince the donors were among the key barriers to its adoption.

The study concluded that the majority of participants from the three different groups perceived *qard hassan* to be a good Islamic method of financially supporting SMEs. It was shown that this instrument incurs no additional costs for owner- managers. However, bank managers suggested that the risk associated with this method of finance was strongly emphasised due to its misinterpretation by the borrowers. The following in the third research question and summarizing of the outcomes:

How can Islamic financial institutions develop further support for SMEs in Kuwait?

1	The new Islamic legislation for establishing Islamic banks in Kuwait would not be helpful to the SME sector.
2	The findings suggested that the majority of the three groups believed that the Islamic instruments were more suitable than commercial instruments.
3	According to <i>sharia</i> law, all contracts, either products or services, that are bought or sold, must be clear to both parties. This helps to reduce the risk of asymmetric information and moral hazard.
4	The analyses of the three groups show that there is a difference between theory and practice in Islamic banking.
5	The findings suggested that leasing is one of the products used in Kuwait to finance SMEs.
6	From the bank managers' point of view, the data showed that there are two benefits to the <i>Ijarah</i> contract for finance institutions. The first is that the asset during the leasing remains under the name of the financial institution, and the second advantage is that, under <i>Ijarah</i> , the two parties may agree to amend the rental for a future period.
7	<i>Musharaka</i> is a useful contract for financing the SMEs of Kuwait.
8	Most Islamic finance banks do not use <i>Musharaka</i> ; it is considered to be high-risk because all partners in the contract maintain the assets of the <i>musharaka</i> on a trust basis.
9	The findings recommend that Islamic financial products that are based on profit and loss sharing that is built upon ethical business models would be a reliable alternative to the conventional system.
10	<i>Zakat</i> and charity would be helpful means of supporting SMEs.
11	<i>sharia</i> board members suggested that it might be acceptable to invest <i>zakat</i> funds after fulfilling the urgent needs of <i>zakat</i> recipients, and dependent upon the availability of sufficient safeguards against losses.
12	Sharia board members suggested that <i>zakat</i> funds could be utilised in investment projects. However, such projects should in the end be owned by the <i>zakat</i> recipients, or placed under the supervision of a competent <i>Sharia</i> body entrusted with the collection and distribution of <i>zakat</i> .

13	It would be a good idea to use <i>waqf</i> to support SMEs. Moreover one SME owner-manager mentioned that the Kuwait Awqaf Public Foundation plays an important role in developing society using <i>waqf</i> funds.
14	Although all the <i>sharia</i> board members agreed that it was permissible to invest <i>waqf</i> in the financing of SMEs and that it would be a helpful resource for this purpose, some board members thought that the investment of <i>waqf</i> should be in low risk vehicles.
15	The study concluded that the majority of participants from the three different groups perceived <i>qard hassan</i> to be a good Islamic method of financially supporting SMEs.
16	The research found that there are few applications of <i>zakat</i> , charity, <i>waqf</i> and <i>qard hassan</i> in the financing of SMEs in Kuwait or other Islamic countries.

10.3 Implications of the research

This research has generated a number of findings and conclusions that may have implications for policy makers, practice, and research. The implications discussed here are by no means all-inclusive but are intended to stimulate thinking on how the insights from this research might impact, in a very broad way, on policy, practice and research with regard to Islamic financial institutions which support SMEs in Kuwait.

10.3.1 Implications for policy

The Kuwaiti government has been trying to reduce its reliance on oil whilst also supporting the private sector. The SME sector could be a key to achieving this vision. This research finds that it should be mandatory for the government to act as a strategic partner with the financial institutions to enhance the SME sector in Kuwait. Therefore, some of the research findings have potentially vital policy implications which are discussed below.

The evidence of this research suggests that the official definition of SMEs in Kuwait should be based on turnover, rather than on capital value or number of employees; this would have multiple advantages for SMEs. Furthermore, SMEs should become

strategic tools in solving the main challenges that face the government, such as the reduction in dependence upon government jobs, and addressing the reliance on oil as the only source of income for Kuwait.

A further implication of the study relates to the Manpower and Government Restructuring Programme. The programme should support and give SME owners a greater advantage than those who work in the private sector. It should also support the SME sector, by offering training and finance to SMEs. The programme should not be limited to providing monthly salaries for workers in the private sector.

The findings regarding the national fund suggested that, in order to finance SMEs, the fund should benefit from the banks' experience, and that of the existing specialised SME financial institutions that finance and support SMEs. Furthermore, the new fund should use Islamic finance methods because the evidence of this study suggested that the Islamic instruments were more suitable than commercial instruments in the Kuwaiti economy. The government should understand this point and improve the availability of Islamic finance instruments, particularly in the new national fund to support SMEs in Kuwait.

The findings of this research indicated that there are significant positive relationships between government intervention to support SMEs and banks that finance SMEs. It is widely recognized that the government should play a critical role in promoting an enabling environment in which banks can fulfil the SME finance and banking sector needs to engage together to develop the SME sector in Kuwait. The government should provide security certificates to the banks so that they can finance SMEs. It was also suggested that government should not distribute its efforts by increasing the number of institutions that support SMEs. Instead, the government should establish a single body for SMEs that provides training, finance and licensing, and allows for completion of all government documentation in one place.

To sum up, despite the overwhelming emphasis on *musharaka* as a useful instrument for financing Kuwaiti SMEs, all three groups considered it to be a high-risk contract for the banks. Therefore, it is suggested that *musharaka* is a useful instrument for use by specialised SME financial institutions to finance Kuwaiti SMEs, but not by banks.

Furthermore, there are research implications related to *zakat*, *charity* and *waqf* organizations. These organizations should support the SME sector by training and educating owner-managers. Moreover, in order to use *zakat* and charity money to finance SMEs, *zakat* and charity organizations should establish a portfolio with banks because they have business and finance experience. In addition, *zakat* and charity money could be utilized in investment projects. However, such projects should, in the end, be owned by the *zakat* recipients, or placed under the supervision of a competent entrusted *Sharia* body with the collection and distribution of *zakat*. The findings of this study add to the understanding of the role of *zakat*, *charity*, *waqf* and *qard hassan* in supporting SMEs in Kuwait. This could encourage the government to adopt related policies in order to improve access to finance for SMEs from charity organizations.

10.3.2 Implications for practice

In order to enhance the SME sector, the financial and learning institutions should offer classes and training courses in: how to write a business plan; how to conduct extensive research into the business field; government rules and regulations.

The findings suggested that Islamic banks should treat SMEs differently compared to big corporations and according to their needs. Moreover, they should finance start-up SMEs, and should use *musharaka* and *ijarah* contracts in their dealing with SMEs.

Another implication of the research concerned the requirement that SMEs provide collateral. Islamic banks could use a low risk contract, such as *leasing* instead of requiring collateral. They could also establish an independent institution to act as a guarantor for SMEs seeking bank finance; use *takaful* insurance; use the collateral by contract method; or wire income transfers to the bank.

10.4 Research Limitations

As far as the researcher is aware, this study is the first of its kind, especially in the context of Kuwait. In common with any research, the present thesis has its limitations

and these are discussed in this section. Although the findings are interesting and valuable, they should be viewed in the light of these limitations. The first part of this discussion considers the limitations of the research findings; the second part considers the limitations of its generalization to other countries.

The sample included two case studies, a case here being the phenomenon of SME financing as enacted by two organizational forms. This research included twenty in depth face-to-face semi-structured interviews, conducted with three different groups: SME owner-managers, managers from the financial institutions, and *Sharia* board members, all living in Kuwait. Obviously, it is difficult to generalize from this sample to the SME sector in Kuwait as a whole, in the absence of the wider population. because the case studies allowed the researcher to gain depth understanding.

A further limitation of this present study is that the sample was limited to organizations that use Islamic finance methods, which are the Islamic banks and specialised SME financial institutions that use Islamic instruments in Kuwait. Therefore, the generalization of such findings to other organizations is inappropriate.

The main limitation facing the researcher was the lack of information regarding the SME sector in Kuwait. Furthermore, there was limited literature on SMEs.

Another issue which the researcher felt was a limitation was the absence of legislation for SMEs. When the researcher began his research, there was no legislation concerning SMEs in Kuwait.

A broader question, however, is whether the findings could be generalized to any other country. On one hand, the GCC countries have many similarities with Kuwait in terms of language, culture, and social life. Furthermore, these countries face the same economic challenges. All are trying to reduce their reliance on oil and gas as their main source of income, and in terms of employment, most of the GCC countries depend upon government jobs. Additionally, there are many areas of interaction and relationship with Kuwait. Therefore, some of the results can be generalized to the GCC countries.

Furthermore, the findings of this research, especially those with regard to the role of *zakat*, charity, *waqf*, and *qard hassan*, can arguably be generalized to other Islamic countries to enhance the role of the Islamic finance institutions in meeting the needs of their SME sectors. Also they could help to bridge the gap between theory and practice in Islamic finance.

Moreover, the findings of this research can arguably be generalized to the whole of the SME sector in Kuwait, as several interviews were conducted with SME owner-managers. Also the sample included a number of dimensions of diversity, including sector, age, education level and gender, in order to identify the financial problems and challenges which faced SMEs in Kuwait.

10.5.Suggestions for future research

There were many points, questions, and areas of interest that emerged during the investigation, which may be of interest for further research. These include:

The research findings indicated that incubators have become an important issue for SMEs in Kuwait; the new national fund agrees with this finding and has promised to establish the necessary facilities. Therefore, a study of the role of incubators in the development of SMEs in Kuwait would be interesting and useful.

It was found that some of the financial institutions in Kuwait use *musharaka* contracts for financing SMEs. Furthermore, Islamic banks felt that these *musharaka* contracts were risky. To generate richer findings, a study of the effect of *musharaka* contracts in developing the SME sector in Kuwait would be useful.

Government support for the SME sector is still limited to offering finance, but the study found that the government could play a significant role in supporting the SME sector. Therefore, the role of government institutions in supporting SMEs would be an intriguing topic for further study and might usefully enhance the role of these institutions.

The theory of *zakat* is that it should change the lives of poor people and make them solvent. The study found that SMEs are considered to be one of the main tools for poverty alleviation, therefore, a study of the international experience of using *zakat* and charity money to finance SMEs would be helpful. It might lead to a marriage between *zakat* and SMEs which could help to reduce poverty.

Furthermore, the findings of this study show that *qard hassan* and *waqf* are useful sources of finance for SMEs. Therefore, conducting an exploratory study into the effect of *qard hassan* and *waqf* on the growth of SMEs in the Arabic countries would add a great deal of richness to our understanding of the SME sector, and help to identify further solutions to the problem of lack of finance.

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APPENDIX 1: Interview Questions in English

1- Demographic and Introductory Questions

Analysis of the SME owner-managers' perceptions

- 1- How do you run the project?
 - As the project owner
 - As a specialized manager
- 2- Age:
 - 19 or under
 - 20 - 29
 - 30 - 39
 - Over 40
- 3- Gender:
 - Male
 - Female
- 4- Your highest qualification:
 - Without qualification
 - University first degree
 - Post- graduate degree
 - Other qualifications
- 5- Experience in running this project and previous experience:
 - 0 to 5 years
 - 6 to 10 years
 - 11 to 15 years
 - Over 15 years
- 6- How much is the project capital?
 - Less than 20,000
 - KD 20,001 to 100,000
 - KD 100,001 to 250,000
 - More than KD 250,001
- 7- How many people work for the project?
 - Less than 10
 - 11 to 50
 - 51 to 100
 - More than 101

8- What is the ownership structure of your enterprise?

- Sole proprietor
- Family partnership
- Non family partnership
- A limited liability company
- Other

9- Age of the business:

- 0 to 5 years
- 6 to 10 years
- 11 to 15 years
- More than 15 years

10- What is the main source of finance for your project?

- Self financing/ personal savings
- Family and friends
- Government
- Private banking

11- Commitment to project management:

- Full time commitment
- Part time commitment

12- What is the legal status of the project?

- Registered
- Not registered

13- Average annual net profit?

- No profit
- 1% to 5%
- 6%to10%
- More than 11%

2- Factors affecting SMEs in Kuwait

- 2.1. Some experts in the field of SMEs suggest that there is no official definition for SMEs in Kuwait. What would you say about the lack of official definition for SMEs in Kuwait? How would you define an SME?
- 2.2 In your opinion, how important are SMEs to the development of Kuwait economy?
- 2.3 In Your opinion, what are the things that could changes in banking credit policy aid the development to develop Kuwait's SMEs sectors?
- 2.4 Research shows that one of the obstacles facing SMEs in Kuwait is access to funding. What do you suggest in order to tackle this problem under the permissibility of Islamic financial law?
- 2.5 Most banks in Kuwait require collateral. What do you think of the principle of requiring security collateral? Are there other alternatives
- 2.6 Some financial institutions and banks require a business plan for obtaining finance. In your opinion, how important is a business plan as a prerequisite for obtaining finance? What do you think should be included in a business plan?
- 2.7 What do you think of the importance of financial statements approved by external auditor for the approval of loans provision?
- 2.8. Some researchers suggest that the reputation of the borrower and their family background and personal relationship could affect the decision making in relation to the provision of the loan. What are your opinions of this statement and why? And do you face any experience of this?
- 2.9. Do you agree that the government should intervene to promote the awareness of the importance of SMEs? What should be the government role in supporting and promoting SMEs sector in Kuwait?
- 2.10 Do you have knowledge of "Manpower and Government Restructuring Program - MGRP"? If so what is your opinion about this program?

- 2.11 The Kuwait government established a fund with a capital of KD 2 billion to support the SMEs sector. Were you aware of this? How do you think this should be used?
- 2.12 Which organisations are you aware of that support SMEs? Which of these give the most valuable support & why do you think this?
- 2.13. What are the most important challenges that facing SMEs in Kuwait? What are the methods for overcoming that?

3- Kuwait Islamic financial institutions

The main question

How do Islamic finance institutions meet the needs of small and medium enterprises in Kuwait

- 3.1. What are the most important difficulties facing your institution in the field of financing SMEs? How do you deal with these difficulties?
- 3.2. Are you satisfied with the financial resources available in your institution to fund SMEs in Kuwait? Why?
- 3.3. What types of financing "financial products" are offered by your institution to SMEs?
- 3.4. What are the requirements needed to obtain financing for the SMEs in your institution? And why?
- 3.5. Which financial institution is more compatible in terms of using Islamic finance instruments as a model of SMEs? And What are the types of support given to SMEs project's owner?
- 3.6. What do you think of the idea of the developing a specific financing institution for SMEs?

3.7. Do you think the environment of the Kuwait finance sector is capable of absorbing finance to more SMEs and guide them to have long successful life? Why?

4- Islamic Banking

The main question

How can Islamic finance institutions develop further support for SMEs in Kuwait?

4.1. In the light of the new Islamic legislation (Laws) for establishing new Islamic banks in Kuwait, Do you think that these laws and regulations constitute an opportunity to finance SMEs in the future? Why?

4.2. Do you think that Islamic finance instruments are more suitable than commercial instrument for SMEs? Why? ?

4.3. Today many Islamic banks use Leasing (hire-purchase) as a source of finance. What do you think about "leasing" as a new source of finance to SMEs in Kuwait? Do you believe it will be helpful? What are the disadvantages of leasing?

4.4. What do you think of "*musharaka*" as a source of finance? What would you say about the advantages/ disadvantages of *musharaka*?

4.5. As you know, the zakat House in Kuwait is considered to be one of the most important organizations in the Islamic world. What do you think about "*zakat* and charity" as a new source of finance to SMEs in Kuwait? Do you believe it will be helpful and in what way? What would you say about the advantages/ disadvantages of *zakat*?

4.6. What do you think of "*waqf*" as a new source of finance to SMEs in Kuwait? Do you believe that it will be helpful and in what way? What are your opinions the advantages/ disadvantages of *waqf*?

4.7. Many Islamic countries such as Saudi Arabia and United Arab Emirates have institutions that Use *qard hassan* as a sources of finance SMEs. What do you think about "*qard hassan*" as a new source of finance to SMEs in Kuwait? Do you believe that it will be helpful and in what way? What would you say about the advantages/ disadvantages of *qard hassan*?

APPENDIX 2: Interview Questions in Arabic

INTERVIEW QUESTIONS

- 1- هل تقوم بإدارة المشروع بصفتك
- مالكاً للمشروع؟
 - مديراً للمشروع؟
- 2- العمر
- 19 سنة أو أقل
 - من 20 – 29 سنة
 - من 30 - 39 سنة
 - أكبر من 40 سنة
- 3- النوع
- ذكر
 - أنثى
- 4- أعلى المؤهلات
- بدون مؤهلات
 - حاصل على درجة جامعية
 - خريج دراسات عليا
 - مؤهلات أخرى
- 5- الخبرة في إدارة هذا المشروع والخبرات السابقة
- لا شيء - 5 سنوات
 - 6 – 10 سنوات
 - 11 – 15 سنة
 - أكثر من 15 سنة
- 6- كم يبلغ رأس مال المشروع؟
- أقل من 20,000 د.ك.
 - من 20,001 – 100,000 د.ك.
 - من 100,001 – 250,000 د.ك.
 - أكثر من 250,001 د.ك.
- 7- عدد العاملين في المشروع؟
- أقل من 10
 - من 11 – 50
 - من 51 – 100
 - أكثر من 101
8. ما هو هيكل الملكية الخاص بالمشروع؟

- منشأة فردية
- شراكة عائلية
- شراكة غير عائلية
- شركة ذات مسؤولية محدودة
- أشكال أخرى

9. عمر المشروع

- من 0 إلى 5 سنوات
- من 6 إلى 10 سنوات
- من 11 إلى 15 سنة
- أكثر من 15 سنة

10. ما هو مصدر تمويل المشروع؟

- تمويل ذاتي/ مدخرات شخصية
- الأهل والأصدقاء
- الحكومة
- الخدمات المصرفية الخاصة

11. الالتزام بإدارة المشروع

- دوام الكامل
- دوام جزئي
- لا يوجد التزام

12. ما هو الوضع القانوني للمشروع؟

- مسجل
- غير مسجل

13. معدل صافي الربح السنوي؟

- لا يوجد أرباح
- من 1% إلى 5%
- من 6% إلى 10%
- أكثر من 11%

2- Factors affecting SMEs in Kuwait

ثانياً: العوامل المؤثرة على المشاريع الصغيرة والمتوسطة في الكويت.

السؤال الرئيسي: ما هي المشكلات التمويلية والتحديات التي تواجه المشاريع الصغيرة والمتوسطة في الكويت؟

1/2 يرى بعض الخبراء في مجال المشروعات الصغيرة والمتوسطة أنه لا يوجد تعريف رسمي خاص بـ "المشروعات الصغيرة والمتوسطة" في الكويت، فما هو رأيكم في عدم وجود هذا التعريف الرسمي في الكويت؟ وكيف يمكنك تعريف المشاريع الصغيرة والمتوسطة؟

2/2 ما هي أهمية المشاريع الصغيرة والمتوسطة من وجهة نظرك بالنسبة لتنمية الاقتصاد الكويتي؟

إيجاد فرص عمل

نمو الاقتصاد

دعم القطاع الخاص

الابتكار

3/2 ما هي - من وجهة نظرك - الأشياء التي تحتاج إلى تغيير بالنسبة لسياسات الائتمان المصرفي من أجل تنمية قطاع المشاريع الصغيرة والمتوسطة في الكويت؟

الضمانات.

تكلفة مراقبة الأموال.

أمور قانونية.

4/2 تظهر الأبحاث أن الحصول على التمويل هو أحد العقبات التي تواجه المشروعات الصغيرة والمتوسطة في الكويت، فما هي مقترحاتكم لمعالجة هذا الأمر في ضوء أحكام الشريعة الإسلامية المالية؟

5/2 تشترط البنوك الكويتية تقديم ضمانات فما هو رأيك في مبدأ اشتراط الضمانات لتأمين السداد؟ وهل لديكم اقتراحات بشأن بدائل في هذا الصدد؟

6/2 تشترط بعض المؤسسات المالية والبنوك وجود خطة عمل للحصول على التمويل. في رأيك ما مدى أهمية وجود خطة عمل كشرط أساسي للحصول على التمويل؟ وما هي العناصر التي يفترض وجودها في خطة العمل؟

7/2 ما رأيك في أهمية تقديم البيانات المالية المعتمدة من المدقق الخارجي للموافقة على منح التمويل؟

8/2 يرى بعض الباحثين بأن سمعة المقترض وخلفية الأسرة و العلاقات الشخصية قد تؤثر على قرار منح التمويل. ما رأيك في هذا القول؟ ولماذا؟ وهل واجهتك مثل هذه المواقف؟

9/2 هل توافق على ضرورة أن تقوم الحكومة بالتدخل لتعزيز الوعي بأهمية المشروعات الصغيرة والمتوسطة؟ وما هو الدور الذي ينبغي أن تلعبه الحكومة من أجل تنمية هذا القطاع في الكويت؟

أمور تنظيمية

دعم تمويلي

10/2 هل لديك علم عن برنامج إعادة هيكلة القوى العاملة والجهاز التنفيذي للدولة؟ إذا كانت الإجابة بـ نعم، فما رأيك في هذا البرنامج؟

- 11/2 قامت حكومة الكويت بإنشاء صندوق برأس مال يبلغ ملياري دينار كويتي لدعم قطاع المشروعات الصغيرة والمتوسطة. هل لديك معرفة بهذا الأمر وما هو رأيك في كيفية استخدام هذا الصندوق؟
- 12/2 ما هي الهيئات التي تقدم الدعم للمشاريع الصغيرة والمتوسطة حسب علمك؟ وما هي الهيئات التي تقدم الدعم الأكثر قيمة بينها ولماذا؟
- 13/2 ما هي أهم التحديات التي تواجه المشاريع الصغيرة والمتوسطة في الكويت؟ وما هي الطرق للتغلب عليها؟

3- Kuwait Islamic financial institutions

ثالثاً: المؤسسات المالية الإسلامية الكويتية

السؤال الرئيسي

كيف تقوم المؤسسات الإسلامية المالية بتلبية احتياجات المشروعات الصغيرة والمتوسطة في الكويت؟

- 1/3 ما هي أبرز الصعوبات التي تواجه مؤسساتكم في مجال تمويل المشروعات الصغيرة والمتوسطة؟ وكيف تتعاملون مع هذه الصعوبات
- 2/3 هل أنت راضٍ عن المصادر التمويلية المتاحة في مؤسساتكم للمشاريع الصغيرة والمتوسطة في الكويت؟ ولماذا؟
- 3/3 ما أنواع التمويل "منتجات التمويل" التي تقدمها مؤسساتكم للمشروعات الصغيرة والمتوسطة؟
- 4/3 ما هي الشروط المطلوبة للحصول على تمويل للمشروعات الصغيرة والمتوسطة في مؤسساتكم؟ ولماذا؟
- ضمانات
 - تراخيص
 - خطة عمل
- 5/3 أي المؤسسات التمويلية ترى أنها أكثر ملائمة لاستخدام أدوات التمويل الإسلامي كنموذج للمشروعات الصغيرة والمتوسطة؟ وما هي أنواع الدعم المقدمة إلى مالكي المشروعات الصغيرة والمتوسطة؟
- 6/3 ما رأيك في فكرة إنشاء مؤسسة تمويل خاصة بالمشروعات الصغيرة والمتوسطة؟
- 7/3 هل ترى أن بيئة قطاع التمويل في الكويت قادرة على استيعاب تمويل المزيد من المشروعات الصغيرة والمتوسطة وإيصالها إلى النجاح طويل المدى؟ ولماذا؟

رابعاً: البنوك الإسلامية

- السؤال الرئيسي: كيف يمكن لمؤسسات التمويل الإسلامي تقديم المزيد من الدعم للمشروعات الصغيرة والمتوسطة في الكويت؟
- 1/4 في ضوء التشريعات الإسلامية الجديدة الخاصة بإنشاء مصارف إسلامية في الكويت، هل ترى أن هذه القوانين والأنظمة تشكل فرصاً لتمويل المشروعات الصغيرة والمتوسطة في الكويت؟ ولماذا؟
- 2/4 هل ترى أن أدوات التمويل الإسلامية أكثر ملائمة من الأدوات التجارية للمشاريع الصغيرة والمتوسطة؟ ولماذا؟

3/4 الكثير من البنوك الإسلامية تقوم حالياً باستخدام نظام "الإجارة المنتهية بالتملك" كمصدر للتمويل. فما هو رأيك في الإجارة كمصدر جديد لتمويل المشروعات الصغيرة والمتوسطة في الكويت؟ وهل ترى ذلك مفيداً؟ وما هي عيوب نظام الإجارة؟

4/4 ما رأيك في المشاركة كمصدر للتمويل؟ وما هي مزايا وعيوب المشاركة؟

5/4 كما هو معروف، فإن بيت الزكاة في الكويت يعتبر واحداً من أهم المؤسسات على مستوى العالم الإسلامي. فما هو رأيك في " استخدام أموال الزكاة و الصدقات" كمصدر جديد لتمويل المشاريع الصغيرة والمتوسطة في الكويت؟ وهل تراها مفيدة؟ وكيف؟ وما قولك في مزايا و عيوب الزكاة؟

6 /4 ما رأيك في "الوقف" كمصدر جديد لتمويل المشروعات الصغيرة والمتوسطة في الكويت؟ وهل ترى ذلك مفيداً؟ وكيف؟ وما رأيك في مزايا و عيوب الوقف؟

7/4 هناك العديد من البلدان الإسلامية مثل المملكة العربية السعودية ودولة الإمارات العربية المتحدة لديها مؤسسات تستخدم "القرض الحسن" كمصدر لتمويل المشروعات الصغيرة والمتوسطة. فما هو رأيك في القرض الحسن كمصدر جديد لتمويل المشروعات الصغيرة والمتوسطة في الكويت؟ وهل ترى ذلك مفيداً؟ وكيف؟ وما هو رأيك في مزايا و عيوب القرض الحسن.

APPENDIX 3: Interview request letter in Arabic.

الخميس: 19 ذي الحجة 1434هـ الموافق 24 أكتوبر 2013م

الدكتور الفاضل /

الموضوع: طلب موعد لإجراء مقابلة

نتقدم إليكم بأجمل التحيات والتمنيات لكم بموفور الصحة والعافية والتقدم والرفق فيما تسعون إليه لا يخفى عليكم أن المؤسسات المالية الإسلامية قد قطعت شوطاً كبيراً في سبيل تقديم الأدوات المالية الإسلامية القابلة للتطبيق والاستثمار وإن من أهم المجالات التي تعد عاملاً أساسياً في دعم الاقتصاد في أي دولة هي دعم المشاريع الصغيرة والمتوسطة.

وإدراكاً بأهمية البحث في موضوع التمويل الإسلامي للمشاريع الصغيرة والمتوسطة في دولة الكويت والدور الذي تقوم به المؤسسات المالية الإسلامية فإنني حريص جداً للتعرف على الخبرات الخاصة بكم، حيث يسعى الباحث على وجه الخصوص الحصول على المعلومات حول المشكلات التمويلية التي تواجه المشاريع الصغيرة والمتوسطة؟ وكيف تقوم المؤسسات المالية الإسلامية بتلبية احتياجات المشروعات الصغيرة والمتوسطة؟ وكيف يمكن لمؤسسات التمويل الإسلامي تقديم المزيد من الدعم للمشروعات الصغيرة والمتوسطة؟ في دولة الكويت.

من هذا المنطلق، يرغب الباحث بإجراء مقابلة معكم حيث إن مشاركتكم في هذا المسح مهمة جداً للإجابة على هذه التساؤلات حيث أن إجاباتكم سوف تساهم في تقديم سلسلة من التوصيات والمقترحات من أجل ضمان نجاح التمويل الإسلامي للمشاريع الصغيرة والمتوسطة في دولة الكويت.

- كونوا على ثقة أن جميع الأجوبة التي تقدمونها في هذا المقابلة سوف تعامل بسرية تامة، وإن جميع المعلومات المقدمة سوف تستخدم لأغراض هذا البحث العلمي فقط، وهذه الدراسة تنفذ وفقاً للمبادئ التوجيهية للجمعية البريطانية لأبحاث السوق.
- المقابلة سوف تستغرق حوالي الساعة من وقتكم الكريم.
- نتائج هذا البحث سوف تعرض في رسالة الدكتوراه التي ستقدم إلى جامعة جلوسترشير ببريطانيا.
- إذا كنتم ترغبون في استلام نسخة من نتائج الدراسة فإنه شرف لنا.

شاكرين لكم حسن تعاونكم، ولكم خالص التقدير والاحترام.

خالد الحبشي