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Islamic Financing as Alternative Option for Small and Medium Enterprises in Southwestern Nigeria

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Abstract:
The realisation that, despite the great potentials they portend for economic growth and development across contexts, access to finance has remained a major stumbling block to most Micro, Small and Medium enterprises. This has increased impetus for the call for viable and sustainable alternative financing mechanisms. Thus, a cursory look into major offerings of Islamic financing as they suit the purposes of SMEs need to be considered. This study, therefore, examined Islamic Financing products/services as alternative options in terms of accessibility, risk-sharing, and non-adherence to collateral security. Primary data were obtained through the instrumentality of structured questionnaire, administered on 350 customers of Jaiz Bank Plc, across the seven (7) branches in the Southwestern Nigeria. And personal interview conducted on five (5) purposively selected owner-manager of SME customers of the bank. The data were analysed with the aids of descriptive statistical tools to determine accessibility, risk-sharing and unstrict adherence to collateral security. Findings revealed that all products/services offered by Islamic finance are better alternatives to conventional banking services. The study concludes that with government support, the bank is in a good stead to promote the development of Micro, Small and Medium enterprises and that appropriate policies be adopted to encourage the bank to improve access to finance of these business firms for overall economic development.

Keywords: *Islamic finance, accessibility, risk-sharing, collateral security, SMEs, Interest-free*

1. Introduction

The theory of credit rationing, as described by Stiglis and Weiss (1981), explains the reasons why Small and Medium Enterprises (SMEs) may not have access to finance. This is not only because of their high information opacity, but also that information about them is imperfect and unequal. Thus, between the financiers and SMEs, the entrepreneurial finance marketplace is fraught with inherent high risks for financial transactions. As observed by Jin and Zhang (2019), the major source of financing obstacle to small enterprises is as a result of rational choice by financial institutions for the purpose of profit maximisation. They described a situation in which among observationally identical loan applicants, those that are denied credit would not be able to borrow even if they are willing to pay higher interests. And as asserted by Stiglis and Weiss (1981), no matter how adequate the supply of loans is, some borrowers will always be denied credit due to their small size. Thus, despite being flexible, creative and innovative, with greater potentials to make positive returns on investments, small firms are greatly constrained to credit access and they have greater probability of being rationed (Demirguckunt et al. (2010);Erdin and Ozakva (2020); EuroStat (2019); Guo et al (2014); Uhlaner et al (2012).

Similarly, the European Central Bank report of (2013) identified access to finance as the second most important obstacle facing entrepreneurs across the European continent (ECB, 2013). Extant literature is also replete with confirmation across contexts about access to finance being the most pressing problems to the growth and development of SMEs (Berger and Udell, 2006; OECD, 2006: Barraket et al. 2016; Castellas et al. 2018). Corroborating this view, a World Bank (2015) study reported that small businesses in developing countries are lacking financial support to reach their optimum capacity. And that after electricity shortage, inadequate access to financing is the most important obstacle facing SMEs in developing nations like Nigeria (World Bank 2009). Given the importance of financing to SMEs, the entrepreneurial marketplace is being operated through signalling by both the financiers and the entrepreneurs. As observed by Storey and Greene (2010), while the potential financiers make up for the information asymmetries by collecting and processing information about their client's base, the entrepreneurs struggle to demonstrate credit worthiness by sending positivesignals of good intentions to effect repayment via transaction records with banks; provision of additional information through plausible business plans; provision of third-party insurance cover, etc.

It should however be noted that while the entrepreneurial market operates on these shaky signalling procedures, most SMEs are still finding it very difficult, if not impossible, to secure financing. The mostly affected being the start-ups, who may not have any transaction history, collateral security nor third party insurance, but must secure access to finance in order to operate and discharge their contributions to every economy. It is on these premises that a cursory look into the Islamic finance, imbued with a retinue of financial instruments that place so much emphasis on risk-sharing, as offering important solutions to accessibility problem faced by SMEs in the marketplace. And as posited by Abou-Gabal et al. (2011), Islamic finance can resolve the problem of information asymmetry through profit and loss sharing contracts, while ensuring loan repayment (moral-hazard) with new technologies that are appropriate to the characteristics of the market. These are to ensure that they have low transaction costs, few information requirements, and are highly scalable to make a large portfolio of smaller financing sizes profitable (Abou-Gabal, et al. 2011).

The Islamic financial system is predicated on the religion of Islam. Islam, a complete way and a code of life that caters for all the fields of human endeavour, provides specific guidelines for humanity to follow to enjoy their daily lives. The guidance it provides is very comprehensive to include all aspects of morality, political, socio-economic as well as spiritual that guarantee peace and harmony among the people. And as posited by Al-Mawduud (1961), Islam is a unique and comprehensive ideology that guides the life of human beings consisting of a creed or doctoring, and a system of rules and regulations. While Islam lays strong emphasis on Prayers, Zakaat, Ramadan fast, and Pilgrimage, it equally places much importance on earning a living that enables man to meet other essential life obligations. Thus, Islam requires man to earn halal (acceptable) incomes to fulfil life obligations through regulated economic activities that engender property rights, social and economic justice, wealth distribution and good governance.

It should however be noted that many of the limitations placed on Muslim entrepreneurs are meant to reduce activities that can harm society. While business activities are limited by the ethical standards imposed through man-made laws and regulations, the contractual agreements entered by business parties, and the personal standards and goals of individuals involved – which may include religious and ethical considerations. Islam enjoins entrepreneurs to engage in business ventures with a predesigned desire to involve only in activities that conform to Islamic tenets and that which pleases Almighty Allah. For instance, in Islam, economic transactions are only valuable and permitted if they involve or facilitate the transfer of real goods and services that are beneficial to the society. However, while money is valuable as a medium of facilitating legitimate economic transactions, Islam forbids trading in money for itself, since money itself is not considered as a permissible economic end. Thus, transactions that involves the trading in money as a commodity or the trading of monetary goods without connection to an underlying real asset is prohibited.

One important feature of Islamic finance is the prohibition of interests, either on loans or on deposits. Usury (Riba), described as monetary advantage or interests earned without counter value, an advantage which is stipulated in favour of one of the parties in exchange for monetary values (Saleh 2011). It is any unjustified increase of capital for which no compensation is given, and such benefits, which may be a sum of money or any item of value, renders such transactions null and void in Islam.Riba is considered as the pursuit of illegal, exploitative gains made in business or trade via interests charged on loans or deposits. The prohibition of Riba in Islam, as posited by Hayes (2020), is to ensure that people can protect their wealth by making unjust and unequal exchanges illegal. Rather to promote charity and sense of brotherhood through acts of kindness. Shariah frowns at Riba to remove sentiments of selfishness and self-centeredness, which can create social antipathy, distrust, and resentment (Hayes, 2020).

While the general goal of entrepreneurship is believed to be the ability to maximise personal financial benefits, i.e., the utility maximisation of economic resources, success is often gauged by the financial benefits accrued from business endeavours. These often come as a reward to risk-bearing propensity of an entrepreneur. Thus, the higher the risk, the higher the likelihood of returns on investment. It is in furtherance of this that some nefarious activities like drug-dealing, gambling, and prostitution, to mention but few, are frowned at all over the world, but they are still regarded as entrepreneurship, albeit destructive in nature (Baumol, 1990; Murphy et., al. 1993; Desai and Acs, 2007). Whether productive or unproductive, economic activities like gambling, alcohol, speculation, rent-seeking and interest-taken are destructive activities that stifle economic growth and development. While rent-seeking is described as any redistributive activity that takes up resources with natural increasing returns, it becomes so attractive compared to value-creation thereby discouraging everyday innovative activities. As opined by Murphy et al. (1991), rent seeking is a trade-off redistributing wealth in a way that reduces growth while it rewards talent more than entrepreneurship.

Islamic entrepreneurship, which focuses on pleasing Almighty Allah, is designed to fulfil religious obligations. This is consistent with the moral and ethical standards as epitomised by Islam through guidelines that ensure not only personal benefits are enhanced but together with the overall upliftment of societal welfare. Success of Muslim entrepreneurs are measured by how well the religious goals are achieved which consequently translate into the improved value for all and sundry.The ultimate motivation is not only to achieve individual upliftment with regards to worldly goods but the divine benefits of the hereafter, which is the supreme triumph to every Muslim.

While entrepreneurs require adequate financing of their endeavours to accomplish set-objectives, the major source, as prescribed in capitalism, is from banks and other financial institutions. However, loans attract 'interests' – with the onerous believe that banks can survive only by charging it. This makes debt, a sort of servitude to the lender, an unethical, unfair, and injustice in the sight of Islam. Islamic finance has, since time immemorial, had positive alternative financing instruments in which the underlying principles is for both parties to participate in risks and rewards, and that financing must be provided through assets and not in cash to avoid involvement of interests.It is on these premises the study examined Islamic financing as alternative financing options for entrepreneurs, especially the small and medium enterprises and start-ups. Specifically, the study examined the ease of accessibility of SMEs to financing, the stress-free risk sharing (non-adherence to collateral securities), as well as interest-free relationship that suit their purposes as better and alternative financing mechanisms.

2. Incentives for Entrepreneurship in Islam

Entrepreneurship is a social and managerial process through which resources are re-combined to create improved values through new products, new services, new raw materials, new processes, new markets, etc. etc. with the end results being the creation of new (improved) values. This may be via the establishment of new start-ups, spin-offs from existing organisation or the outright renewal of existing structure. Whichever form the new improved value is created, there is usually a need for financing. Thus, the major touted constraints to small business across context is attributed to finance. While banks and other financial institutions are established to perform intermediation functions of mobilising funds from the surplus segment of an economy and lend to the deficit segment with a view to making profits, the pervasive opacity coupled with other attributes of small business, like information asymmetry could not allow them to disburse funds as freely as they would.It is on these premises that The Addis Ababa Action Agenda on Financing for Development in 2015 recommended blended financing for Small and Medium Enterprises as a means of encouraging their growth for the developmental prowess they portend for all economies (Thaker, 2015). One banking system that exhibit significant impact investing and accommodates, through innovative mechanisms, instruments and modalities, the very nature of SMEs, is the Islamic Banking.

Islam, as a complete way of life is predicated on the principles of social justice and peaceful coexistence. It is on this basis the Islamic financial system is operated in line with the tenets as espoused by the Holy Quran. The unique feature of this system is the interest-free principle, such that where it is practised to the core, interest is not chargeable on any loan neither is it payable on deposits (Abou-Gabal et al. 2011). Money does not earn money without collaboration between capital and efforts, i.e., depositors do not earn automatic fixed returns on their deposits, the bank must have invested such funds, either through the consent or express permission of the depositor and what accrues to the depositor is the share of profit accruing from such investments. The financing options open to SME entrepreneurs in Islam, as posited by Abou-Gabal et al. (2011), can be categorised broadly into four:Mudaraba (project financing; Musharaba (equity participation), Murabaha (letters of credit), and Ijara-wa_ikma (lease financing).

Mudaraba is a project financing option in which the bank as the investor provides the financial resources to a budding entrepreneur whose only contribution is the project idea and the technical know-how (Abou-Gabal et al. 2011). Projects are scrutinised and evaluated by experts from the bank to determine whether they are economically feasible, viable and are Sharia-compliant, before going into an agreement.In Islamic Jurisprudence terms,Mudaraba is a contract in profit-sharing between the investor and the entrepreneur (Abou-Gabal et al. 2011). The bank agreed in advance, with the entrepreneur to finance the project wholly, to the extent that if the project succeeds, profit is shared in the agreed proportion, however, in case of loss, the bank bears the entire liability of the funds provided while the entrepreneur losses only his efforts. At the end of a project the agreement stands terminated and the rights and liabilities of both parties concerned are duly recognised. This risk-sharing arrangement is one of the best financing options for SMEs, particularly for project financing where the entrepreneur has little or no collateral or business history.

*Musharaba*is equity participation between an entrepreneur and an investor, wherein the duo agreed to jointly finance and execute a project by contributing capital on an agreed proportion. It is on this contribution agreement that the profit/loss sharing is based for a specified period of time. Projects are scrutinised and evaluated by experts from the bank to determine whether they are economically feasible, viable and are Sharia-compliant, also if the would-be partner possesses credibility, adequate expertise and experience for successful execution of the project idea before going into an agreement. The Banks participation/commitment is then negotiated either for a specific project time frame or redeemable in which the bank recaptures its investment progressively over time in line with the ability of the project to generate returns and adequate cashflow to effect payback of the capital and the agreed share of profit. This financial mechanism is a very suitable option to entrepreneurs venturing into new production horizon or expanding the scope of operation. The risk is shared, and great burden is lifted off the shoulder of the entrepreneur. Besides, both parties must ensure the success of the project through monitoring and other supports.

Murabaha – a financial agreement suitable for the purchase or import of capital goods, consumables or raw materials for business firms use and with intent to purchase same from the bank at convenience. The entrepreneur provides specification, quotation and repayment condition on item/machinery to be purchased to the investor (Bank) to appraise. It is after careful consideration and agreement with every aspect of the proposal, the Bank proceed to make purchase. The actual purchase price should be declared, in case there is discount or rebate, the item must be classified to meet internationally accepted standards, and the original agreement (pre-purchase) must remain binding. This especially on the share of profit, mark-up on cost of purchase as well as the transfer of title. It should be noted that repayment terms are always flexible, considerate and simple. Once the purchase price plus the banks margin have been agreed upon, repayment can be spread over a period of time on mutual convenience (ranging from 6 to 24 months) depending on the market pattern of the item and the terms of trade. And as for the services charge, it must not be proportional to the value of the item purchased or the letter of credit. To this effect, the Kuwait Finance Religious Supervisory Board recommended a 0.5% as fair enough and has since been adopted across Islamic institutions.

Ijara-waIkma – is another lease financing arrangement in which the entrepreneur request the bank to purchase machinery or equipment with the intention of renting same to the client for an agreed fee. The bank is obliged to value the financial position of the client (his capability, technical know-how, integrity, trustworthiness, etc.), and the expected cashflow of the lease contract in the same manner as in ordinary lease financing decisions of the conventional banks. In a direct leasing finance, the bank allows the entrepreneur to use its assets for a specified period subject to monthly/annual rental fee payment, this agreement terminates at the specified period. The lease to purchase arrangement is when the entrepreneur agreed to using the machinery, making periodic payment until the full amount of the machinery is paid for ownership to be transferred. The rental fee could be a fixed amount or a percentage of the cashflow of the project which consists of the banks share in the net profit attributable to the asset plus the rental charges. Depending on the nature of the agreement, the Ijara financing is concluded once all obligations have been duly discharged and the transfer of ownership is affected. This is another easier means to Micro, Small and Medium enterprises to leverage upon, using other people's resources to fulfil their obligations.

3. Islamic Financing in Nigeria

Non-interest, Islamic finance has become a growing global phenomenon offering alternative financial services open to all and sundry. Currently in operation in more than 80 countries all over the world, including United Arab Emirates, Malaysia, China, Singapore, USA, UK, etc. while global banks like Barclays Bank, Citibank, HBSC, Standard Chartered Bank, to mention but few, also operate non-interest windows (Sukfin, 2020). It is predicated on ethical principles offering banking products and services based on fairness, objectivity and transparency. In sub-Sahara Africa, as observed by Sukfin (2021); Ethiopia, Kenya, Uganda, Tanzania and South Africa have been benefiting from Islamic banking services for sometimes now, whereas, Jaiz Bank Plc – the premier non-interest bank in Nigeria commenced operations on the 6th of January 2012.

Jaiz Bank, with Head office at Abuja, commenced banking businesses in Abuja, Kaduna and Kano, it currently operates from 39 branches across the country, as at December 2020 (Annual Reports, 2020). The bank is engaged in a mix of financial services, including retail banking, corporate banking and e-Business. Financing and business loans available to SMEs and other corporate entities through the bank, as espoused by SukFin (2021) includes: working capital financing (Murabaha); project financing/construction (Ikma); Lease to own Finance (IjarawaIkma); Equity-based Finance (Musharaka); Bonds and Guarantees (Wakala/Kafala); and Import/Export Finance (Murabaha)

Financial services rendered by Jaiz Bank could be particularly suitable to SMEs in that there are different funding options for different categories of corporate clients. While each funding option comes with its own set of terms and conditions, lending criteria for Micro and Small firms are somewhat considerate, especially for unsecured loans. As asserted by SukFin (2021), to qualify for unsecured loan, your business must be somewhat profitable, must have a good credit history, should been trading for some (1 – 3 years minimum), and that being an active customer of the bank confers an advantage. The fact that business registration is a prerequisite for eligibility for business loan does not preclude Micro and Small firms from benefiting from Jaiz Bank credits.The bank does provide suitable alternative options for unregistered businesses. Small and unsecured loans are made available to Micro and Small businesses whose only criterial is good credit proposal that indicate profitable venture, and probably, a good credit history.

4. Methodology

The study was conducted on the SME customers of Jaiz Bank Plc operating in the Southwestern part of Nigeria. The choice of Jaiz Bank was as a result of the fact that it is the first and only wholly Islamic financial institution operating in Nigeria.

Primary data for the study were obtained through personal interviews conducted on purposively selected owner-managers of five (5) SME customers of the bank and through structured questionnaires, with a set of multiple-item reflecting a five-point Likert scales to measure each identified variable. And of the 350-questionnaire administered on the bank customers across its seven (7) branches in Southwestern Nigeria, a total of 311 responses were retrieved and utilised for data analysis after screening and evaluation, representing 88.9% response rate. Data obtained were analysed through descriptive statistical tools to describe accessibility and suitability of financing options available to SMEs through Islamic financing.

5. Results and Discussion

The study examined Islamic Financing as an alternative financing mechanism, especially for SMEs. It investigated the ease of accessibility of credit, the stress-free risk sharing attribute of most products/services and the interest-free nature that are more suitable to the nature and characteristics of SMEs across contexts. It is in this regard, that the results of descriptive statistical tools deployed to analyse data obtained via structured questionnaire administered together with the qualitative data gathered through personal interviews conducted on sampled owner-managers were compared for the purposes of literal and analytical generalisation to confirm the suitability of Islamic finance to SMEs.

Particulars	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Islamic financial services are available to all and sundry	2.55	3.25	15.55	40.20	38.45
Jaiz Bank provides a mix of financial services suitable to SMEs	3.55	7.25	14.45	39.65	35.10
Jaiz Bank offers a variety of funding options as alternatives suitable to SMEs	5.55	5.75	12.25	42.20	34.25
Terms and conditions are varied depending on types of firms and loans sought	4.05	6.15	9.05	36.35	44.40
Business registration is not rigidly required for small and unsecured loans	3.30	5.55	10.00	40.05	41.10
Small and unsecured loans are usually disbursed quickly and with ease	6.65	8.15	16.20	35.15	33.85

Particulars	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
The Bank offers both short- and long-term loans	2.05	3.25	7.55	42.35	44.80
With good and profitable proposal, collateral security is not usually needed	4.38	6.96	18.50	32.30	37.86
Small and unsecured loans require no collateral	7.05	10.25	14.22	37.48	31.00
Credit volume is usually predicated on firm’s turnover	5.90	11.76	15.65	30.15	36.54
Repayment structure is flexible and negotiable	3.25	4.56	8.24	36.65	47.30
Return on investment is by pre-agreed Profit/Loss sharing formula	6.65	9.80	11.35	40.00	32.20

Table 1: Sampled Customer Respondents Responses on Alternative Islamic Financing for SMEs
Source: Field survey, 2021

Sampled Jaiz Bank Plc customer respondents’ responses, as shown in Table 1, revealed that 78.65% agreed that the banks services are made available to all, irrespective of religious affiliation. As a registered commercial bank, desirous of profit maximisation, it is in its interest to attract as many customers as possible. This, however, so long as it agrees with the philosophy upon which the bank is set up. The result agrees with the analysis of sampled interviewees as represented by the textual descriptions from three participants (owner managers) as summarised:

- Participant 1: This is very true. In fact, the banks’ philosophy is to deliver sharia-compliant financial services to clients irrespective of class, creed, race, or religious believe. This is conspicuously displayed at the entrance of all their facilities.
- Participant :2 Our firm is a partnership medium enterprise and both of us are Christians. We were introduced to the bank by a fellow Christian woman. I can confirm to you that they don’t discriminate.
- Participant 3: I think it makes business sense that they are open to all people. Mind you they are registered as a business entity to make returns to their shareholders, pay taxes to government and compete with others in the market.

The result is in tandem with The Banker (2010) report that Islamic Finance has been flourishing across contexts enjoying a 29% growth in assets as well as 8.85% growth rate as at 2009. Also, that over the course of 2010, some 20 conventional banks ventured into offering shariah compliant financial products, including within Europe and America (The Banker, 2010). Further, giving the regional breakdown of its global assets, (Abou-Gabal, et al. 2011) affirmed that Islamic finance has been enjoying significant geographic expansion with 28.6% increase in Sub-Saharan Africa, 22.6% in Asia, and 10.8% across Australia/Europe and America, all in 2010.

Table 1 also revealed 74.75% of sampled respondents agreed that the bank provides variety of alternative financial services suitable to SMEs. As a commercial bank, the bank is obligated to attract customers through innovative, value-added products and services that enable it meet set-objectives. The results corroborate the analysis of sampled interviewees as represented by the textual descriptions from three participants summarised below:

- Participant 1: As a commercial bank, they render almost every all services by their peers and more. The hallmark of their services is the interest-free banking, and with this, most small businesses are greatly relieved.
- Participant 4: As a Micro enterprise, our attraction is the availability of credit facilities without strict adherence to collateral security.
- Participant 5: Yes. Most of their product/services are suitable to SMEs. When you consider interest-free, Risk-sharing and no collateral facilities. They are our darling financial institution.

Given credence to this result is the conclusion of Thas-Thaker et al., (2020), that Islamic finance industry is a broad framework that has great potential for supporting development finance, particularly related to small businesses. Also, in support of this position, the Islamic Financial Services Board (2018) revealed that the Islamic Bank has experienced a compound annual growth rate of approximately 17%, managing some $1.8 trillion worth of total assets over five years to the first quarter of 2014 as compared to global banking of growth 0.6% in 2013.

Results from Table 1 revealed most respondents (81.15%) agreed that business registration is not strictly required for small and unsecured loans. Another strong source of attraction to Micro and Small businesses whose majority are usually not registered. All the interviewees were unanimous that this is a serious plus for the Bank as it makes borrowing a stress-free experience for Start-ups. The textual descriptions of three of them attested to this as summarised:

- Participant 2: The bank’s policy on this has really brought great relief to both Micro and Small firms. We can now obtain working capital stress-free.

- Participant 4: There is no doubt that the issue of business registration and collateral have precluded Micro and Small firms from getting access to credits. For the Bank to overturn these two is a milestone breakthrough.
- Participant 5: The Bank is very thoughtful and innovative. I salute their mission of making life better through ethical finance.

Results from Table 1 also revealed that most sampled respondents (70.16%) agreed that with good and profitable proposal, collateral security is not usually required for every loan. This is most especially for Start-ups and Small firms that require unsecured loans. What is required mostly is a good workable proposal that can proof that the business is profitable. The result is in consonance with the analysis of sampled interviewees as represented by the textual descriptions from three participants as here summarised:

- Participant 1: The bank professes to have different funding options suitable for different firms. It is a novel initiative that has given impetus to Micro and Small firms. We are in operation today, thanks to this option.
- Participant 2: The initiative is apt; credit proposal and its appraisal should determine the viability or otherwise of loan disbursement. It means both the Bank and the client must be upright and transparent.
- Participant 5: This is a good development. Most somewhat good proposals cannot scale through because of collateral security. As a Start-up, our dream would have died prematurely as we cannot provide any,Jaiz Bank is just our Messiah.

This result is in consonance with the report on Jaiz Bank Plc by Sukfin (2021), that the Bank does not require collateral for all its loan products, most especially, unsecured loans. And that to be eligible for financing, a business must be somewhat profitable and must have a good credit history.

Results obtained from Table 1 also revealed that most sampled respondents (66.69%) agreed that repayment structure is flexible and negotiable. This is one of the basic principles of Ethical banking. Terms and conditions governing the execution of the credit must be negotiated, ab-initio and agreed upon by both parties. The results agreed with the analysis of the sampled interviewees as represented by the textual description from three participants as summarised below:

- Participant 2: That is true. We were issued with an offer letter that contains Terms and Conditions, and our responses and opinions were sought to confirm our agreement. It is after we endorsed the offer letter that disbursement is affected.
- Participant 4: The Bank, after thorough evaluation of credit application, will determine suitable conditions to make repayment easier. The offer letter must then be endorsed by the client to signify acceptability.
- Participant 5: I think this becomes pertinent because emphasis is not placed on collateral security. Hence, the credit proposal must be scrutinised and evaluated well to determine business suitability for financing. And it is on the basis of this that repayment structure is based.

On return on investment that is based on pre-agreed Profit/Loss sharing formula as revealed in Table 1, most sampled correspondents (72.20%) agreed that bank makes profit by charging the customer rent. Bank products/services like Ijara and Murabaha scheme, a price is agreed at the beginning with the client. The analysis of data of sampled interviewees also corroborates this, as the textual description from three participants summarised their responses as presented:

- Participant 1: This is the beauty of Islamic finance - Risk-sharing. It is only when the business is profitable that both parties can share rewards. Thus, both parties must ensure the business succeeds.
- Participant 2: I think this makes a radical departure from the old norm. Banks are not supposed to sleep over once credit is disbursed. The business must succeed for even the bank to talk of positive returns.
- Participant 3: This is part of our negotiations. We were made to understand that profit will be shared if the business succeeds, the same applies to losses. The sharing formula is also negotiated and agreed upon before the disbursement.

As the only set of financial institutions authorised to engage in trade (Annual Report, 2020), Islamic bank makes profit by trading in assets, lease financing, and through joint venture partnership. The Bank often contribute capital to finance a business and then share profit or loss based on agreed ratios.

6. Conclusion

Challenges facing small businesses across contexts have been observed to include their legal status, paucity of information, collateral facilities, poor cash flows, poor documentation, poor financial records, etc. which characterised them as high-risk businesses. These constraints, and more, prevent formal investors from making formal investments, especially at the pre-seed stage of most business venture. However, Islamic finance has brazed the trial by introducing innovative financial products/services capable of circumventing these hurdles, not only for SMEs but for all businesses.

From the results of the study, it could be deduced that Islamic financing harbours some inherent benefits for all businesses and promotes social impact for all and sundry; it eliminates pure debt securities from the financial system, promotes exchange of goods and services wherein all financial contracts are backed by tangible assets. It promotes risk-sharing that lifts great burden from start-ups and small firms allowing them access to the critically needed seed-funding's. The pre-agreed profit/loss sharing formula, pre-negotiated repayment structure, upholding the fulfilment and sanctity of contracts and honouring of debt obligations, all emphasise the principles of morality, ethics in accordance to Sharia law/jurisprudence.Islamic finance as an advocate of risks and rewards sharing between parties constitute an alternative approach to conventional financing with attractive models suitable to SMEs financing that guarantees their growth and consequently improve economies.

The growth prowess reported by Islamic Banks across contexts is a pointer to the fact that any policy maker and government agencies desirous of economic growth and development must endeavour to promote Islamic financing. It has proven to be a darling of Small and Micro businesses in terms of gaining access to finance needed for their growth and development.

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