Islamic Financing of the Small Projects—Palestinian Case

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This study aims to expose the available finance by both traditional and Islamic banks in Palestine, determine and identify the most used Islamic tools of finance for the Palestinian economy through small enterprises, in addition, the study aims to assess if there is any contribution of the Islamic banks to the Palestinian economy. In order to reach these goals the researcher used the descriptive analysis method in order to illustrate credit facilities through the Palestinian Banking system, then, enclosing the Islamic banks in Palestine and its credit facilities and used tools. The study identified through the recent experiences of Palestinian Islamic financing and Islamic financing mechanisms practiced in Palestinian Islamic banks, murabaha, ijarah, Musharaka, and mudaraba occupied the same important level as in the neighboring countries. The study found that frequent constraints, Israeli hindrances, and heavy restrictions on goods movement, services and people through internal and international crossings increase the suffering of the small projects, as well as other productive economic sectors at all levels, administrative, financial, and technical, with no Palestinian strategy to enhance the contributing share of small projects to the Palestinian national economy. In addition, the study concluded that the inability of traditional banks to provide the required finance to the Palestinian productive sectors led to Islamic banks entering into the financing market in Palestine to open new funding sources for Palestinian small projects, so the small projects could raise their contribution to GDP. The new Palestinian Islamic financing experience is unable to create financing mechanisms suitable to the Palestinian situation, which has sign for Islamic banks to deal with cases similar to the traditional finance, this comes in the absence of a strategy by Islamic banking or monetary authority or the Palestinian government to activate the role of Islamic banks in financing small projects. For these problems, there must be a strategy to support the activities of these projects and provide appropriate funding for small projects to transcend all these constraints, to support small-sized enterprises in Palestine financially and technically. In this study, the researchers expose the available funding and financing by both Islamic and traditional banks. The study recommends that a comprehensive strategy needs to bring together all financing bodies to have joined efforts towards the formulation of a funding strategy for small projects. Both conventional and Islamic banks are required to provide various types of supports specifically financing for small projects, to enable small projects to play their role in enhancing the national economy. The study also urged the need of Islamic banking to broaden the base of Islamic banking to create a financing base appropriate with the nature of the projects.

Keywords: small enterprises, Islamic finance, Islamic banks, traditional banks, Islamic finance tools

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Introduction

Due to the importance of small enterprises and their pivotal role in the development process, it has become a priority for planning programs in the world's different agendas, especially developing countries, and in Arab and Islamic countries, for several reasons, it is a quick solution and short-term to contribute to solving the problems of unemployment and poverty that is existing all over Arab, Islamic, and Palestinian economies.

Small businesses play an important role in fighting against poverty and unemployment, the historical absorptive capacity of small businesses in the U.S. economy and its contributions to Japanese economy and other developing countries, in America, the small enterprises constitute 97% of total enterprises employing about 13 million. In Japan, the percentage of small businesses occupies about 99.4% of the number of projects where such projects use 84.4% of total employment, in Palestine, the percentage reached around 91% of total existing projects, which is around 55% of GDP.

The importance of small businesses in the Palestinian economy, flops between un-resourced planning¹, poor management, Israeli obstructions, procedural restrictions, factional challenges and the growing size of the workforce, increasing number of graduates, political instability, and the low level of basic social services in Palestine.

The Study Problem

In a weak environment of few investment incentives in general for small businesses and aggravating constraints and illogical Israeli measures, there must be a strategy for financing small projects that overcome all obstacles to support small enterprises in Palestine financially and technically. Stimulating the Palestinian banking sector to provide the necessary funding for such projects is vital to enable them to increase their contribution to development, as an alternative measure for job creation for the accumulating number of graduates in Palestine. The weak capacity of the PSE to bear the cost burdens of commercial financing imposes on the Islamic finance system to merge as an alternative financial resource in the Palestinian banking sector which may provide the required finance with acceptable cost.

The study problem is presented in the following key question: Can the Palestinian Islamic banks provide the sufficient, necessary, accurate, and funding, which may be acceptable by small enterprises in Palestine?

The Study Importance

The study emphasizes the urgent importance that requires collective efforts of all Palestinians to face the community challenges resulted from the depraved Palestinian institutional performance toward small projects which is considered to be the cornerstone of the Palestinian economy that's through:

- Explaining the nature of Islamic finance in Palestinian development to empower the contribution of small enterprises in development process.
- Identify the role and impact of funding using Palestinian Islamic finance in strengthening the capacity of Palestinian small enterprises PSE development.
- Assisting small entrepreneurs to identify and communicate with Palestinian Islamic funding sources.

¹ Un-resourced Planning: A type of planning in which a country depends on external resources that they may obtain from the other countries like aids, grants.

Hypotheses

The hypotheses the study represented are in the following:

- Islamic finance can contribute to strengthening the capacity and building of PSE.
- Various types of Islamic financing have positive impact on the number of small projects.
- Islamic finance may enhance the development and PSE development.
- Capacity enhancing of PSE contributes to enhancing the development influence on the Palestinian economy.

Previous Studies

Abu Jamie, Bank Credit and Enhancing the Ability of Small and Average Palestinian Businesses, (April) 2015

The study aimed to identify the role of the banking sector in supporting and funding small and average businesses on Palestinian territories in order to enhance the abilities of small and average businesses on Palestinian territories. The study arrived at a conclusion that the Palestinian banking sector has not fulfilled its funding role as expected and has not given sufficient attention to funding small businesses, as the average of granted loans by working banks in Palestine for funding small businesses has not exceeded 3% of the total granted loans in Palestine.

The study recommended the importance of implementing a set of policies and procedures that would improve the performance of small and average businesses. These policies aim to activate and serve the Palestinian economy through providing advisory and technical services, improve investment opportunities and encourage the working banks in Palestine to fund small and average businesses at interest rates and low costs through giving them material privileges such as tax exemptions and so on.

Al-Biltaji, Funding Small Businesses Through Islamic Banks, 2009

Through this study the researcher tried to set forth the notion of Islamic bank financing and its distinctive nature as well as its suitability for small businesses. Furthermore, the study offers the most important suitable methods for those businesses in order for them to be funded to fulfill their promised role in economic and social development. The study also offers Islamic banks some guidelines towards successful financing of small businesses after defining the most critical obstacles of traditional financing of small businesses.

The study concluded with stating the significance of small businesses in achieving social and economic development, and especially in solving unemployment. Traditional financing (loans with an interest) is not suitable for funding small businesses, as it causes much damage and numerous problems for these new businesses. These problems arise as a result to obligatory commitment to paying off loans with an interest even if the profits are less than the interest rates or if a loss occurred, which may raise the costs of the funding process. The Islamic method offers a system of Islamic funding strategies which suit the conditions of small businesses, such as Ijarah, Musharaka, Silm and Istisna'a (manufacturing), and Murabaha and Albayea Leajal (credit sales). The study also confirmed the success of some Islamic banks that managed to fund many small businesses using the Islamic financing strategies like the National Bank for Development and the Faisal Islamic Sudanese Bank.

The study recommended the importance of small businesses in achieving social and economic development, and that the Islamic banks should have a set of standards by which funding of a business is

accepted by one of the existing Islamic strategies, or that could be developed legitimately by Islamic banks.

Miqdad and Hillis, the Role of Islamic Banks in Funding Economic Development in Palestine

In this study, two researchers studied the role of Islamic banks in funding the process of economic development in Palestine as they managed to collect the data directly from the Islamic banks and their branches by means of questionnaires they developed for this exact purpose.

The field study of these two researchers confirmed that Islamic banks are not capable of fulfilling their roles in funding the process of development as contrary to the theoretical side of the study. The researchers also confirmed the success of Islamic banks in the compilation of savings; however, they have failed to give facilitations which weakened their role in funding the process of development.

The researchers recommended activating the schematic role of Islamic banks in correspondence to the Palestinian situation and finding funding alternatives other than Murabaha and focusing on partnership (Musharaka) and speculation (Mudaraba).

Hisham Jabr, Islamic Banks in Palestine: Challenges and Outlook 2003

The study aimed to determine the challenges that the working Islamic banks face in Palestine, their future predictions and how to distribute their investments over different economic sectors, as the investments of the Islamic banks were centralized in the transport, trade, construction, and industry sectors. The study also concluded that the Islamic banks work under the Jordanian Banking Law of 1966 and which is void of a relationship outline between the Monetary Authority and the Islamic banks, it is also restricted to functioning according to the Islamic Shari'a and must compete with banks that are not restricted by Islamic Sharia. The Jordanian Banking Law also lacks awareness in terms of Islamic banking and faces difficulty in finding investment alternatives which made most of its investments centralized mainly in the domain of Murabaha.

The study recommended that these banks need to exert marketing efforts to allow their employees to get acquainted with Islamic bank work before marketing that to the audience and letting them know about the nature of their work. The study also recommended amendments in bank laws taking into consideration the nature of Islamic banks. The Palestinian Monetary Authority recommended that when establishing a monitoring body over Islamic banks that they must have experience in the field of banking and financing as well as Sharia, also they must deal with Islamic banks concerning cash reserve and liquidity in a manner different to that of which they use to deal with traditional banks.

Al-Daraji and Rawda, Islamic Financing and Its Role in Supporting and Developing Small and Average Businesses in Algeria (Waqf and Zakat) 2003

Through this study, the two researchers tried to identify methods of Islamic financing and their role in rising up with small and average institutional sector in Algeria while focusing on Islamic Waqf processes and Zakat being the most used methods in Algeria for funding small businesses on one hand, and on the other hand these two methods are considered as a mainstay in the policy of social solidarity which distinguishes the Islamic economy from every other economy. This is to help the country find solutions to funding these businesses through inventing bodies concerned with funding these institutions such as the Youth Support and Employment Agency and the National Agency for Facilitating Small Loans.

The study concluded that Islamic financing is deemed indeed one of the best available methods of

financing in Algeria and it is the most stable and flexible, as it provides a suitable atmosphere for the establishment and development of small and average institutions and which is considered as the most ideal solution for poverty and unemployment in Arab and Islamic countries.

The study recommended the country to work on finding a solution through creating bodies concerned with funding these institutions such as the Youth Employment and Support Agency and the National Agency for Facilitating Small Loans. The two researchers also recommended implementing methods of Islamic financing that offer numerous way of utilizing capitals in business such as speculation, partnership, Murabaha, Istisna, Silm, etc. which open wide gates for recruiting a big number of skillful working hands (university graduates, and craftsmen).

Benefiting from previous studies.

- The research has given benefit to determine the inputs and the study form including the benefits and objectives.
- After being introduced to the previous studies, Islamic financing was also introduced. several studies assume Islamic financing is a mandatory alternative to (interest) Riba-based financing.
- The studies illustrated a critical need for developing financing methods to go with this era's needs.

Distinction from previous studies.

- The researcher hasn't found a single study on this topic of research on the Palestinian level.
- The limited number and small sizes of Islamic and Palestinian banks and their abstinence from providing any data formed a big challenge for the researcher.
- The Palestinian financing studies are very limited by jurisprudential and Sharia principles away from applied cases.
- The research's special hypotheses and objectives have not been raised before as far as the researcher is aware.

Methods of Funding Small Businesses in Palestine

The privileges that small businesses hold in terms of freedom of ownership and administration made these businesses gain the prospect of not being restricted by the many restrictions imposed by bigger businesses and which earned them two financing methods in Palestine. These methods can be outlined in:

Self-financing, which is considered as one of the best types because it does not result in any additional costs to the capital as small business owners are convinced. In the context of this type of financing, the organizer's personal savings are included as well as direct borrowing from family and relatives without causing any damages related to borrowing or interests. In Islamic terminology, it is called "good loans" or "free-interest loans" encouraged by the Sharia and Islamic legislators.

Financing from others, it includes bank credit. There are two methods of this funding:

- Traditional bank credit which comes from traditional commercial banks and is based on interest rates.
- Islamic financing from Islamic banks and institutions which is based on dealing using Islamic methods.

In this research the researcher will take the second method due to its significant role in enhancing the ability of small businesses to open cooperative links with the banking sector especially Islamic banks and institutions which is the theme of this research and which has already entered the small businesses funding process since 2006 in Palestine and that is to enable these businesses to attain the needed funds to enhance their abilities in contributing to the support and development of the national economy.

Palestinian Banks Mechanisms in Financing the Economy

In this part of the research, the study will discuss the role of the Palestinian banking sector in funding small and average businesses in the national economy. As means of pinpointing its role in motivating economic development the study will view financing mechanisms according to the following:

(1) Credit facilities

There are two types of credit facilities that are provided in Palestine (PCBS, 2012):

- Direct credit facilities, it includes a variation of loans, overdrafts, and leasing, this is in the case of commercial banks. As for Islamic banks it includes Murabaha, speculation, and Ijarah.
- Indirect credit facilities which is represented by contingent liabilities the bank commits to towards a third party on behalf of the clients, and it does not include paying cash to any party such as opening letters of credit, issuance of guarantees, and accepting bills. And the banks earn commissions in return.

(2) Project financing

Project financing is considered relatively of the modern financing notions, as it depends on providing required finances on the feasibility of the funded business and the prospective cash flows as a primary source of trustfulness towards its commitments and duties as opposed to depending on the abilities of the business owner and his financial solvency².

(3) Bank credits, the role of bank credits is prominent in business financing through direct facilities granted by working banks in Palestine to different economic sectors, as shown in Table 1, the credit facilities granted by Palestinian banks to fund public trade sectors came in first place, as the value of the gross credit facilities granted to this sector during the period between 1996-2014 reached 6,955.0 million dollars and constituted 36.5% of the gross direct credit facilities granted to different economic sectors. The second place comes the credit facilities given to fund the services sector as its total value during the same timeframe reached 6,121.2 million dollars at an average of 31.7%, and the gross credit facilities granted to fund industrial, construction, and agricultural sectors reached 2,507.7, 480.64, and 461.3 million dollars respectively and at an average of 12.9%, 2.5%, and 2.3% respectively. As for direct credit facilities granted to different sectors, its gross value during the time between 1996-2014 reached 2,772.6 million dollars at an average of 14.3% of the total facility rate.

It is observed from Table 1 and Figure 1 that a decline occurred in the rate of direct credit facilities given from the banking sector to productive economic sectors, more precisely the industrial, and agricultural sectors. The average of granted credit facilities to the agricultural sector was 2.3% only, whereas the industrial sector earned 12.9% in the years between 1996-2014. This indicates the carelessness of the banking sector to finance productive sectors due to the high risks of doing so in Palestine and the low degrees of guarantees and profit rates.

The Palestinian banking sector is unable to take initiative to bear the levels of risks with these sectors so as to enable them to earn their supposed position in the economy. Therefore, the Palestinian banking sector must be activated to fulfill its role in giving greater attention as well as elevating the size of credit facilities to the productive sectors considering the fact that these facilities will not be consummative, rather productive, which will create job opportunities and thus lower poverty and unemployment levels.

² Financial solvency is the ability to own enough money to meet the financial obligations, or it is the difference between the assets and the liabilities where this difference is always in favor of the assets.

Table 1

Direct Credit Facilities Granted by the Palestinian Banking Sector to Different Economic Activities in the Time Between 1996-2014 (per Million Dollars)

Year	Agriculture	Industry	Construction	Trade	Services	Others
1996	3.0	82.6	46.6	150.4	22.5	96.7
1997	22.6	79.3	75.3	227.7	39.7	105.4
1998	12.4	90.5	104.6	205.8	91.0	243.2
1999	15.9	105.9	124.0	265.3	172.5	223.8
2000	21.0	109.9	124.2	357.9	258.0	58.7
2001	14.1	112.5	128.6	307.8	226.2	67.2
2002	16.1	101.1	116.4	263.1	238.7	82.2
2003	16.4	92.6	133.7	364.3	247.0	69.6
2004	18.1	98.3	152.5	299.3	263.9	181.5
2005	14.7	105.7	189.1	364.9	304.7	214.9
2006	15.4	117.1	208.7	364.6	341.4	310.1
2007	18.9	118.8	225.0	369.9	417.3	134.1
2008	33.9	152.7	188.2	329.1	411.7	35.9
2009	38.6	184.8	221.5	341.3	521.1	110.9
2010	45.3	257.9	331.6	392.2	576.8	138.1
2011	34.8	302.0	406.4	491.3	434.2	224.7
2012	35.1	173.8	589.5	503.2	615.4	142.5
2013	38.3	222.2	650.4	612.3	564.7	136.9
2014	46.7	257.2	790.1	744.6	374.4	196.2
Total	461.3	2,507.7	480.64	6,955.0	6,121.2	2,772.6
Percentage	2.3	12.9	2.5	31.7	36.5	14.3

Source: Palestinian Monetary Authority, Sectorial Distribution of Credit Facilities, Cumulative Data, website www.pma.ps.

Figure 1. Relative distribution of direct credit facilities granted by Palestinian banking sector to fund different economic sectors during the period of 1996-2014. Source: Figure 1 prepared by researcher based on data in Table 1.

Loans Designated to Financing Small Businesses

The data in Table 2 show the amount of bank finances designated to small businesses in the Palestinian territories within 2008-2013. We can see that the value of given loans by working banks in the Palestinian territories to fund small businesses reached 910.7 million dollars in the time period of 2008-2013 constituting 2.8% of the total loans given by Palestinian banks to fund all productive sectors. In 2013, the value of facilities given to small and average businesses reached 712 million dollars. Banks offered 631 million dollars, whereas special loan institutions offered 84 million dollars. These facilities were distributed over various economic sectors in which the trade sector received the largest share up to 55.1% of the total facilities given to small and average businesses, and the public services and facilities sector received 9.8% (PMA, 2013).

The average of loans given by Palestinian banks to fund small businesses is very low which indicates that the banking sector lacks interest in funding small businesses in spite of their significance and role in fighting off unemployment through creation of new job opportunities that achieve economic development.

It is clear that there is an improvement in the amount of facilities given to small businesses in 2013 after the authorities had adopted many mechanisms to facilitate the work of these businesses and provide them with the needed funds as a basic step towards eradication of unemployment and poverty.

Table 2

Small Businesses Loans Granted by the Palestinian Banking Sector to Various Economic Activities in the Period of 1996-2013 (per Million Dollars)³

Year	Small businesses loans (per million)	Average of interest rates on dollar loans	Average of interest rate on loans of the three currencies
2008	20	7.47	9.63
2009	68.9	6.19	8.24
2010	78.2	6.33	8.26
2011	48.4	6.79	8.70
2012	64.9	6.97	8.40
2013	631	7.52	9.42
Total	279.7	-----	-----

Source: Palestinian Monetary Authority, Sectorial Distribution of Credit Facilities (2008-2012), website www.pma.ps.

Special Loans: Its role is prominent in funding businesses through the loans these institutions provide for different sectors as well as the nature of these institutions work, their objectives, vision, and concern with social responsibilities.

The Special Loans sector tries to support productive sectors that do not receive sufficient attention by banks, as the facilities given to the industrial and agricultural sectors do not exceed 15.1% of the total facilities given by banks, whereas it exceeded 23% of the total facilities of the Special Loans institutions (Abedel kareem, Abed, & Abu Zaitoun, 2013).

The researcher sees that the main reason that drives these institutions to fund small and average businesses of the small marginalized economic sectors stems from their interest in avoiding unnecessary financial costs to achieve a high level of profits with the lowest risks possible, and that is because these institutions are of a non-profit nature and are more interested in achieving social goals rather than great profits.

³ No annual information was found about small businesses loans earned by the Palestinian banking sector to different economic activities for years 2013, 2014. Therefore the researcher made do with the information provided in Table 3 which extended to 2012.

Table 3

Performance Indicators of the Special Loans Institutions in the Palestinian Territories in the Period of 2008-2013

Report	2008	2009	2010	2011	2012	2013
Number of institutions	9	9	10	10	8	6
Number of branches	68	69	65	68	62	61
Total loan portfolio (million dollars)	47.2	57.0	63.6	75.7	84.2	85.4
Number of loans	26,763	30,809	N.A	43,409	3,256.2	39,989
Distribution of sectorial loans (%)						
Agriculture	23.4	24.0	25.0	26.0	20.2	17.0
Industry and crafts	11.7	13.0	13.0	16.0	10.0	6.0
Trade and services	30.1	33.0	42.0	42.0	38.5	34.0
Consumption and others	34.8	30.0	20.0	16.0	31.3	43.0

Source: Palestinian Monetary Authority, annual report 2012, Ramallah, Palestine, p. 126, report 2013, p. 141.

Financing Problems Facing Small Businesses in Palestine

Shortage in the amount of funding of small Palestinian businesses basically goes back to the lack of needed funding provided for construction, development, or expansion of these businesses, or even the lack of a legal framework that determines a solid definition of what these businesses are in the Palestinian economy. In spite of the Monetary Authority's attempts to create this framework and recommend these projects since Jericho conference in 2013 without having any tangible effect on these small businesses' activity. It is also reported that the majority of the banks prefer consummative financing or financing large businesses and which are known for being more profitable and less risky, as most of these loans are linked to and guaranteed by salaries. That is why we find that the traditional Palestinian banks abstain from granting funds to small businesses, and had a financing process been carried out in some situations, it would mostly be loans with a high interest rate which would increase the costs of the capital money, and in turn have negative effects on the profits made by these businesses. The obstacles that stand in the way of providing needed credit by traditional banks to these projects are as the following:

(1) The standards of loaning in the Palestinian commercial banks do not suit the special financing requirements of the small businesses (Abu Jamie, 2015), as banks place many conditions and restrictions that must exist in businesses to earn funds. However, these conditions most likely do not suit the nature of these small businesses or their capacities.

(2) Weak financing bodies of small businesses (Amer, 2002): As banks place many percentages and financial indicators extracted from the financial centers of these businesses such as operating leverage ratios, ratios of expenses of revenues, and profitability ratios on top of other credit indicators that are mostly not available in those businesses to determine creditworthiness, and then the refraining of these banks from financing these businesses.

(3) Lack of insurance (Alsameeri, 2014): Insurance is one of the most motivating forces of granting credit, and because of the lack of these insurances needed for financing small businesses, banks hold back from financing.

(4) Unorganized accounting processes and records (Abu Jamie, 2012) and insufficient expertise aside from the owners' tendency to sufficiently hold personal statistical records to avoid taxation issues. These accounting records are of the most important evaluation tools on which the process of granting credit by commercial banks

depends. And since these records are not available, banks tend to refrain from giving out the credit needed for these businesses.

(5) The unavailability of feasibility studies for these kinds of businesses based on correct scientific principles disables commercial banks from granting any credit without having a feasibility study for the businesses that request financing. This is due to the high costs of preparing feasibility studies which form an extra financial burden on the financing body of the business, or it may be due to the lack of interest and faith business owners have in the benefits of these types of studies (Abu Jamie, 2015).

(6) There is no responsible Palestinian governmental institution to support these businesses, as the majority of these businesses are individual. There is no supportive sponsor for these businesses, thus the activities they carry out are very distracted in different directions especially in solving marketing, administrative, financial, and urban problems that they are exposed to (Abu Jamie, 2015).

(7) High interest rates placed on loans and the use of Riba-based concepts. Moreover, the conditions of paying off loans are of the main obstacles that prevent business owners from stepping up to request financing from commercial banks (Alsameeri, 2014).

(8) Most small businesses are characterized by high risk rates (Abu Jamie, 2015) considering the nature of their ownership which is mostly individual (one person or one family), in addition to the incompetence of financial centers which forms a greater threat for banks and an obstacle in the face of financing these businesses, as banks are always concerned with funding low-risk businesses.

(9) The unsuitability of the traditional banks' financing methods of small businesses:

Most small businesses need average long-term funding for building and investment purposes, and which does not correspond with commercial bank fund-granting criteria which always give preference to granting small short-term loans that correspond with the nature of most banks' short-term financial resources. (Al-Biltaji, 2009)

From exploring different opinions of a sample of small business owners in the Gaza Strip⁴ by interviewing them, it has been revealed that commercial banks were not up to the financing ambitions demanded from these businesses owners and do not suit the nature of these businesses for the following reasons:

(1) High interest rates which raise the funding costs compared to the average of profits anticipated from the business. This forms an additional financial burden on the business and which may lead to the suspension of the business.

(2) The novelty of small business owners expertise, as they are young fresh graduates who are feeling their way in the maze of severe unemployment especially in Gaza. They are exposed to many dangers, most important marketing dangers that are difficult to predict and lead to suspension of their business.

(3) Unavailability of sufficient guarantees needs to obtain loans and loan guarantees plus interest pay-offs by small business owners, as they are young fresh graduates seeking success amidst the dark Palestinian reality and exposes them to many risks and dangers, especially on the marketing level which is hard to predict or avoid and thus may lead to the suspension of the business.

(4) There is no sponsoring institution for small businesses in Palestine. This led to the lack of support and guidance provided to small business owners to reach banks and funding institutions of all sorts due to their lack of knowledge and awareness that there exists a possibility to attain the needed funds.

⁴ The sample that was surveyed (50 business ventures, nine detergent industry projects, 16 restaurants and lounges, 11 household projects for making pastries, seven projects for sweets and cakes, and eight projects for handmade heritage products).

(5) Common belief that banks practice consummative financing and not productive, because banks seek amplification of profit and not social benefit.

(6) The fear of falling into forbidden means of transactions such as Riba since interest is imposed on the loans they are striving to obtain.

For these reasons and other non-research reasons mentioned by explorers and not mentioned in this research, the study is going to approach another method which could be a strategical alternative for commercial bank financing with Riba interest from an Islamic perspective.

Islamic Financing Methods Executed in Banks and Islamic Financing Institutions in Palestine

There are many Islamic financing methods used in Islamic banks in both its general and different forms. Islamic banks search for an Islamic financing framework to be used by banks to create suitable financing processes in different forms, these include:

Financing using Murabaha, Partnership financing, Speculation financing, Istisna (manufacturing) financing, Silm financing, Ijarah financing, securitization financing, markup financing, and direct investment.

Transactions using these financing methods cannot be completed without a written contract between both dealers. Contracts in Islamic jurisprudence have three pillars (Khuja & Abu Ghdda, 1993):

(1) Formula

It's the evidence to having two contractors to form a contract, and it's characterized by offering and accepting to suit the needs and demands of both contractors. Acceptance is through two statements uttered by both contractors to indicate their agreement.⁵

(2) Contractors

The formula that demonstrates the contractors' agreement cannot be considered unless it is accompanied by qualification or seignior on behalf of one's self or another contractor or meddlesome; meaning the act of meddling in the affairs of another without his/her permission.⁶

(3) The subject of contract

Not everything can be a subject of contracting such as matters that oppose Sharia or a common custom. These cases are not valid for contracting. Scholars discussed the general conditions that must be taken into consideration in the subject of the contract, they also singled some contracts with special conditions related to the case itself. The subject of contract may be an advantage, debt, or job like in proxy and speculation.⁷

In the Palestinian market, there are 16 running local and foreign banks, seven of these are local; two Islamic and five commercial, and nine are foreign; seven Jordanian banks (Abu Jamie, 2010), one Egyptian bank, and one British bank. There are news about granting the Monetary Authority a new license for a foreign Islamic bank in June 2015.

And for the purpose of organizing the work of the Islamic banks and legislative censorship on them, the Palestinian Monetary Authority issued a set of instructions of which the latest was number 5/2013 issued on 20/3/2013 which includes:

⁵ For more information on the process of offering and accepting, refer to the above reference—Khuja, pp. 26-28.

⁶ For more information on the process of offering and accepting, refer to the above reference—Khuja, pp. 26-28.

⁷ For more information on the subject of contracts, its rules, types, conditions, validation, and revocation, please refer to the previous reference—Khuja, pp. 40-90.

1/5 Concerned with the activities of Islamic banks, 2/5 regulations related to financing processes, 3/5 regulations related to investment and ownership rights, 4/5 regulations related to investing in lands and estates, 5/5 accredited special investments, 5/6 policies of profit distribution and loss analysis, and 5/7 illegal profits. As for the rest of the instructions which are 5/8 precautions, 5/9 body of legislative censorship, 5/10 legislative monitor, and 5/11 general rules related to legislative responsibility and accounting standards, Murabaha, and regulations of disclosure operations and committing to all the instructions issued by the Monetary Authority.⁸

Palestinian Islamic banks function by fixed financing strategies, from the banks' perspective, these strategies are the most suitable for the Palestinian economy. According to Islamic credit facilities detailing illustrated in the Table 4, the researcher arranges the used strategies in Palestinian Islamic banks according to their level of significance as follows:

Murabaha which occupies the first place contributing by 91.65%, followed by Ijarah by 3.3%, then speculation by 2.2%, partnership by 0.7%, Istisna (manufacturing) by 0.51%, financing by bargain 0.38%, good loans "Interest-free" financing by 0.36% noting that good loan financing is one of the most preferable means of financing sharia-wise and mostly accepted by small business owners for its zero costs and motivating power to adhere to religious and moralistic values by fulfilling their pledges, next comes open current accounts by 0.31%, and finally Islamic credit cards by a hardly noticeable 0.003%. These percentages of Islamic financing are closely similar to those of adjacent countries.

The researcher sees that Islamic financing is essentially reliant on Murabaha; method number 2, which is closer to traditional commercial loans than to that of Islamic is financing.

Throughout this part of the research, the study will work on identifying the key forms used in Palestinian banks which are the first four methods, Murabaha to encourage purchases, Ijarah that ends with ownership, speculation, and partnership.

Table 4

Islamic Credit Facilities Detailing as Occurred on 31/12/2014

Number	Financing formulas	Palestinian Islamic bank	Arab Islamic bank	Total	Average
1	Murabaha to encourage purchase	333.7	219.4	553.1	91.6
2	Ijarah ending with ownership	5.3	15	20.3	3.37
3	Speculation	5.6	7.6	13.2	2.20
4	Partnership	1.7	2	3.7	0.70
5	Istisna	4	2.8	3.12	0.51
6	Bargain financing	2.3		2.3	0.38
7	Good loans "Free Interest"	2.2		2.2	0.36
8	Open current accounts	0.90	1	1.9	0.31
9	Islamic credit cards	0.022		0.027	0.003
	Total	355.7	247.8	603.5	100

Source: Unpublished data, Palestinian Monetary Authority, May 2015.

Murabaha

Jurisprudential aspect: definition of Murabaha: Scholars have many definitions. Though they differ in wording but they all indicate a process of selling a product/commodity for the same price used to purchase it

⁸ To access these instructions please refer to the Monetary Authority Website on <http://www.pma.ps/Portals/1/Users/002/02/2/Legislation/Instructions/Banks/2013/instructions-10-2013.pdf>.

and topped with what is known commercially as profit margin. One scholar says that Murabaha is “Selling a commodity/goods for the same price used to purchase it with an additional profit” (Al-Sufi, 1422).

Its legalization: Scholars derive its legalization using indirect evidence from the Quran: “God has made buying and selling lawful and usury unlawful” (Holy Qur’an, p. 275) the most likely of opinions is that Murabaha is not permitted by Sharia, considering that there are someone who see it resentful such as Ibn Omar ibn Abbas (Ibn Qudamah). Actually, there are some who speak of its prohibition such as Ibn Hazm (Ibn Hazm). Opinions of its resentfulness or prohibition were based on the fact that there is unfairness and trickiness and ignorance in selling. Ibn Qudama (Ibn Hazm) refuted this justification by which can be said that Murabaha is permitted by Sharia.

However, it is most likely that we use general evidence on the legality of Murabaha. The topic falls under Ijtihad which must take into regard general jurisprudential and legislative rules as well as the changing status conditions and dynamics of currency changes around the world. So, contemporary application of Murabaha must consider the current circumstances of the accelerating age of globalization which most importantly include commercial transactions that take place between big institutions and not only in the scope of individual transactions that existed at the time of these scholars. This is aside from the huge development that followed production, economic, and financial activities in the world of accelerating change and dynamic globalization. Contemporaries must adhere to what the ancient scholars stated in terms of Murabaha conditions and forms. Murabaha occupies the first place in the methods of Palestinian Islamic financing, occupying what adds up to 91.6% of the amount of Palestinian peaceful financing operations.

Murabaha conditions. Murabaha has many conditions mentioned by scholars, some of the most important are:

- (1) The initial cost and what is added to it as profit margins must be known to both contractors without any deceit.
- (2) The profit must be a value or a proportion of the initial price (the price used to purchase).
- (3) The first contract⁹ must be true and includes the price as one of the legislative methods contracting conditions.

Forms of Murabaha. Murabaha is usually one of two forms known by scholars in ancient times, and they are:

First, it can be called the original form, and it is based on a process during which a person buys a product/commodity with a certain specified price and then sells it to another person for the same price with an addition of what is known as profit without prior agreement. Here we notice that the process of buying is for oneself (previous demand) then he puts it up for sale by Murabaha.

Second, it is what currently used in Islamic banks generally and in Palestinian banks in particular. It occupies the first place among the Palestinian Islamic financing methods, as it contributes by 91.65% of the total Islamic financing operations in Palestine in a period that ended 31-12-2014. As shown in Table 3, it is called Murabaha sales to encourage purchase and it is based on the following:

One person approaches a second and tells him “Buy this certain commodity (gives detailed description) and I will buy this commodity from you for the same price you paid to buy it in addition to a certain amount of money or proportion of the original price as profit margin”. In Al-Shafi’s book *The Mother*, he makes mention

⁹ For more information and special conditions of Murabaha refer to Ibnu Qudama, Al-Mufti, ch4, p. 198 and what follows. Ibn Rushd, The beginning of the Mujtahid and the end of the Muqtasid. Arab Books House, ch2, p. 273 and what follows, Alshreeni Al-Khatib, Mughni Almuhtaj, Mustafa Halabi printing house, ch2, p. 76 and what follows.

of this process of sales in which study quotes, and if a man saw a commodity and said: buy this and you will gain a profit from it and the man buys it, then the purchase is legal (Imam Shafie).

The researcher sees that Murabaha in its first form is not used by Islamic banks for many reasons, one is because it diverts the course of the bank to a real commercial one which requires special commercial infrastructure to trade goods (storage rooms, display houses, transportation...) which is not of the banks specialization. As for the second form, it is the used form. Some banks and dealers may fall into special cases similar to traditional bank transactions as a result of the accelerating world of globalization and the strong competition between banks.

Ijarah

This method was used in Islamic banks under the name of "Ijarah with a vow of ownership" based on resolution number 10 issued by the International League of Islamic Jurisprudence on 23-28/8/2000 and which states severance of Ijarah from ownership using two separate contracts, and each contract must contain its own rights and legal obligations which differ according to the contract, and it comes in the order of: Ijarah contract that ends with a sales contract or an ownership contract¹⁰. Ijarah occupies the second place among Palestinian Islamic financing methods constituting 3.37% of the number of Palestinian Islamic financing operations.

Ijarah is considered as one of the methods used in Islamic banks to complete some types of Islamic financing, and it is a contract that demands benefit (the right to benefit from the ownership of a certain thing by another person). It is spendable and legalized by a known amount of money. What characterizes this process is keeping ownership of the original things until it is leased and re-leased after ownership. Ijarah has many legislative regulations, such as (Al-Biltaji, 2005):

- The commodity put up for Ijarah must be completely owned by the salesperson/leaser at the time of contract.
- Commodity must be held and passed from seller to buyer so that the buyer may utilize from it.
- Ijarah contract must precede the ownership contract and they may be joined if the deal was one as thought by Hanbalis, Malikis, and Shafi's.
- It is permitted to write any conditions that achieve the benefit of both contractors in the contract, but must not violate any legislative texts or regulations.
- A vow of Ijarah or sales must be executed by whom the vow was made when the time comes.
- It is permissible to suspend regular Ijarah contracts on conditions compatible with the contract as thought by Imam Ahmed and Ibnu Taimia.

The researcher sees that Ijarah financing ending with ownership may be the most suitable form of Islamic financing of small businesses, as it provides the business with all the needed funds in return for contracted payments that are actually monthly spendings on the original commodity ending with ownership of the original commodity by the business owner.

The bank has the right to insure the original commodity during the time of Ijarah using an Islamic method (cooperative insurance), it can also lease and re-lease for the business. The business owner may also rent the original after owning it.

¹⁰ Islamic Financing Methods are available at www.bltagi.com/files.

Speculation

Speculation came as an ease for people to enable mixing between money with the ability to work, this is legal for cash owners who are not able to invest their money and also for adequate workers who possess the ability to use money but do not own it. This method creates income that benefits both parties. So, speculation is a contract between two parties, the first pays money to the second to commercialize with it under the condition that the profit must be the proportion previously agreed-upon between them¹¹. Speculation occupies the third place among Palestinian Islamic financing methods by 2.2% of the total amount of Palestinian Islamic financing processes.

After exploration of some definitions, scholars enclosed the definition of speculation with some special conditions which differ from doctrine to doctrine and may only be restricted to commercializing in some people's perspectives. Other people consider speculation as payment of money, when in fact, it is not like that at all. For it is a contract that is completed either before payment or in sync with it. By referring to the opinions of scholars on this issue, the researcher finds that speculation does not take place without the following conditions that are linked to the definition of the speculation contract:

- Speculation is held between two people.
- Speculation is based on having one person to provide the money and the other person to put it to work.
- The purpose of speculation is gaining profit and benefiting for both sides of the contract as agreed-upon in the contract.

And in order for speculation to be legal according to jurisprudential rules, scholars agreed on five basic conditions that ensure its validity (Sheikh, 2014):

Two contractors, a form, money, work, and a profit. As for the conditions related to the contractors and the form, the same principle of any contract applies to them in terms of the right to act with it (therefore, it is not acceptable from a ribald, boy, or mad man among others who are not eligible for contracting). The form does not take place without offering and accepting (and accepting is enough). As for the conditions specific to the validity of the speculation contract, they are related to the capital money, work, and profit as illustrated below.

Capital conditions.

- Must be in a currency used in the country of either contractors or what could substitute it.
- Type and value must be known, because its anonymity leads to anonymous profit value.
- Must be a specified amount of money and not borrowed from the speculator, for it is not appropriate for the speculator to say to the borrower: use this money in speculation, and that is because the money is in the trusteeship of the borrower and it is not in the hands of the loaner.
- The money must be handed to the speculator because it is in his trusteeship. The contract is not valid without this step because speculation is held using one of the contractor's money and imposing work on the other, and work is not achieved without the money.

Work conditions¹².

Speculation has many conditions that must be applied at work:

- Work for the purpose of growing money.

¹¹ For complete knowledge on Speculation refer to: Al-Nawawi, Yahya Bin Sharaf Bin Mari, Abu Zakaria (676 Hijri) Rawdat Al-Talibeen Wa Omdat Al-Mufteen (Beirut, Islamic bureau, 1405 edition, 2 Hijri), 117/5, Ibn Abdeen (1252 Hijri) Rad Almuhtar Ala Al-Dor Al-Mukhtar footnote, Insight Enlightenment Explanation, Abu Hanifa, (Beirut, House of Intellect, Printing and Publishing, 1421 Hijri, 2000) 277/8.

¹² Look Al-Nawawi Rawdat Al-Talbeen, 12/5, Alshreeni, Mughni Al-Muhtaj, 311/2, AlAwqaf and Islamic Affairs Ministry in Kuwait, Kuwaiti Jurisprudence Encyclopedia, Dar Alsafwa Pringint House, edition 1404-1427, 1Hijri) 55/38.

- Work is of the specialty of the speculator.
- Money owner must not complicate things for the worker, otherwise it violates the purpose of the contract.

Profit conditions. (Sheikh, 2014)

To say that a speculation process is valid, there are conditions related to profit that must be acted upon:

- Its value must be specified by a certain proportion for either contractor (money owner or business owner).

Any anonymity leads to revocation of the contract.

- The profit's value must be a common part of the profit and not the capital, for if the speculator stipulated a percentage of the capital then this is not speculation.

- Shares of both the money owner and speculator must not be a pre-determined value such as part of the profit or a certain amount of it.

Many speculation processes failed to achieve the expected profit in Palestine due to many obstacles and accounts whether it be legal, incorporeal, administrative, or political (Al-Najjar, 2002).

Legal impediments.

- The common laws related the nature of bank work are not suitable for speculation procedures.
- Islamic banks impose transacting using either one of the legal contracting forms similar to guardianship when applying speculation procedures.

- Investment processes are subject to income tax in Islamic banks.
- The law is short on legislation to maintain the parties involved in speculation contracts.
- The modernity of the laws is concerned with the work of Islamic banks in Palestine.

Administrative impediments.

- Unsuitable choices of suitable dealers to complete speculation processes, as there is not qualified staff to use the public data base around bank sector dealers in the Islamic banks, knowing that this Palestinian bank data base is available for all accounts and administrated by the Monetary Authority and commercial banks.

- Weak authorities given to branch administrators and body of legal surveillance in Palestinian banks.
- The reliance of Islamic banks on former cadres of commercial banks which hinders Islamic transactions due to their tendency to use traditional procedures in the financing process.
- Islamic banks' lack of commitment to determining the proportion of profits for each party involved in speculation when signing the contract which revokes the speculation deal legally.

Political impediments. The circumstances in Palestine are bound by political impediments that are different to anywhere else in the world due to the ongoing Palestinian-Israeli conflict. These impediments may be listed as:

- Interlocking banking relations with the Israeli side, and the supervision of the Israeli central bank over Palestinian bank transactions as part of Palestinian-Israeli peace conventions.
- The centralized nature of foreign banks (Arab or foreign) that are subsidiary to the central bank in developing countries. This disables them from matching their activities with the national Palestinian needs.
- Finally, the Palestinian political fission. This problem plays the biggest role in hindering the Palestinian economy from utilizing from international openness on the Palestinian economy in the past years. Many productive businesses were damaged by this as well as the process of requesting financing, as it was impacted negatively and became restricted to consummative cases.

The researcher sees that after identifying speculation from a practical aspect that speculation combined with leases ending with ownership form the best and most successful Islamic financing methods of small

businesses, as they both provide the required finances needed for businesses. This combination of forms could create a promising future for financing small businesses to finally enable them to efficiently contribute to the Palestinian economy.

Partnership

It is one of the Islamic methods of financing and it's akin to speculation. The main difference between partnership and speculation is that in case of speculation, the capital is given by the money owner alone; however, in case of partnership, the capital is given by both parties. Partnership occupies fourth place of the Islamic financing methods used in Palestine by 0.7% of the total processes made. Partnership means funds incorporation, and it is a contract that forms between two or more parties either on the capital or physical effort or administrative effort for the purpose of practicing commercial doings that secures a profit. Partnership in Islamic financing is an investment financing method in which many parties contribute to the bank. The aim of forming a partnership with the bank by these individuals is to achieve profits from partnership of money, whereas the bank looks for financing in a partnership (Shalhoub, 2007).

Types of partnerships. Partnerships (Waheed, 2010, p. 281) vary according to their purpose and which are usually:

(1) Fixed partnership: A type of long-term partnership that depends on partnership of money and profit in certain proportions according to the ruling laws of partnership. This type leaves each party with fixed shares in the business which shape legally as a solidarity company or a recommendation company.

(2) MMP: In this type, the partner has the right to replace the bank in business ownership either lump sum or in separate payments according to the agreed-upon conditions and the nature of the process. MMP is called Partnership that ends with ownership and it has three forms:

- The bank agrees with the partner to have the partner replace the bank using a completely separate contract that is signed after the partnership contracting process is complete. Partners have complete freedom to do whatever they want with their shares.
- The bank agrees with the partner on full or partial financing partnership of a prospective business that would produce income. The agreement includes giving the bank a certain percentage of the total made income while giving the partner the right to keep the rest of the revenues to be spent as he desires. When the partner finally pays off all his dues the ownership transfers to the partner alone.
- The share of each partner is determined through determining certain shares or stocks of certain values. The total of these is the total capital of the business or process. The associate has the right to ownership of these bank-possessed stocks gradually or all at once, as the associate's stocks increase gradually or all at once with the same amount of decrease that happens in the shares or stocks of the bank. This process continues until the associate owns all the stocks in order for them to become fully owned by the company.

(3) Variable partnership: It is a form of financing through debit current accounts, as the client is funded with cash payments according to his needs, then a profit is taken from the annual cash profit.

There are other types of companies in Islamic jurisprudence¹³:

- Permissibility Company.
- Property Company, and it is divided to: Inheritance Company, Ghanima Company, and Mubta'een Company.

¹³ To know more about the nature and qualities of these types of companies, refer to Lahiti, Qaisar Abdul Karim, "Methods of Islamic Investment and their Impact on Exchanges". Dar Arsalan, Damascus 2006, first edition, pp. 98-109.

• Contract Companies, and it's divided into: Annan Companies, Negotiation Companies, Abdan Companies, and Wujoooh Companies.

All types of partnerships mentioned have many conditions to be established. These conditions must be known by all participating parties and written in the contract.

Partnership conditions (Shalhoub, 2007):

- Capital shares must be allotted to all partners without any ambiguity or deceit.
- Capital must be available in a certain place or account when partnership contract is signed.
- Partners may give authorization to one or more partners or even others to manage the capital.
- The process of evaluating all forms of untraditional partnerships such as land or any assets must use the same currency used to evaluate the capital, and based on their values, the average of contribution in partnership capital is determined.
- Independent disclosure is established the moment the partnership is established.
- It is permissible to form a partnership between personal or legal entities.
- Profit may be distributed according to a certain agreement between partners, whereas loss must be distributed equally between the partners based on their level of contribution to the capital.
- Partners may enter a partnership with debts in the possession of other partners under the condition that the debt must be paid off completely at the time of signing a partnership contract.
- In case of violations of any of the partnership conditions by a partner, capital insurance may be requested in this case but not in any other case.
- It is impermissible to specify a certain profit of the partnership's income for a specified period or a specified amount of money.

These are the most important conditions that must be fulfilled. There are also other conditions that may be agreed on between the bank and the associates, but any condition must be written in the partnership contract and must be clearly agreed on without any ambiguity or deceit.

Palestinian Islamic banks. Due to the newness of Palestinian Islamic banks and the unavailability of data, the study tried to obtain data as illustrated in the Table 5 to show a detailed image of the Islamic banks in Palestine and their level of commonness through the number of branches spread all over Palestine. And for the purpose of research integrity, this research not only showed the accredited banks by the Monetary Authority, but also listed the other unaccredited banks that are The National Islamic Bank which has a headquarters and three branches in Gaza and The Palestinian Production Bank whose headquarters is in Gaza.

Table 5

Accredited Islamic Banks and Their Branches in Gaza and the West Bank According to 31/5/2015

Bank	Gaza	West bank	Total	Year of founding
Palestinian Islamic Bank	8	13	21	*1997
Arab Islamic Bank	2	10	12	**1996
Total	10	23	33	
Unlicensed and unaccredited Islamic banks with dealership strictly specific to Gaza's government.				
National Islamic Bank	4	00	4	2008
Palestinian Production Bank	1	00	1	2013

Source: Data available in the table are of the researcher's compilation from different sources and relying on reports of the banks enlisted in the table.

The Palestinian Islamic Bank was founded as a limited public company in 1995. Its banking activities began in 1997 after it received licensing from the Monetary Authority to practice all banking processes according to the Sharia law.

The Arab Islamic Bank was founded as the first Islamic banking company working in Palestine on 8/1/1995. And it is a Public company registered under number 563201011. It started its activities in early 1996.

The National Islamic Bank is a Palestinian company that was founded in Gaza by the Palestinian Company Law of the year 1929 and its amendments as a Public limited stock company registered in Gaza under number 563201581. It was licensed to work by a cabinet resolution issued in Gaza in its 88th session held on 25/11/2008 in Gaza to work in the field of banking.

In addition to the banks mentioned above, there are institutions that deal with small loans and work in Palestine such as Asala, Faten, and Reef. These institutions do not provide any information about its credit capacities in Islamic financing except for news that cannot be counted on in the process of scientific research. Table 3 lists Special Loan institutions.

Financial activity of Islamic banks in Palestine. Due to the newness of financial activity in Palestinian Islamic banks, and for the purpose of research the study tried to obtain data about these banks. The obtained information about these banks is the biggest continuous base that its information found up to year 2014 as shown in Table 6, as noticed previously that the amount of Islamic facilities given by three banks only reached 210% of the total amount of deposits, and 50% of the total findings of these banks. This indicates the increase of demand on Islamic financing as a result of Palestinian dogmatic faith. This is also a clear indicator of a potential expansion of the Islamic banks works in Palestine. Small business owners may benefit from these funds if suitable financing tools were available to them for different pioneering purposes.

Table 6

Financial Activity of Islamic Banks in Palestine (per Million Dollars)

Activity \ Bank	Palestinian Islamic Bank	Arab Islamic Bank	National Islamic Bank	Palestinian Production Bank	Total
Client deposits	134.4	134.3	29.7		298.4
Total facilities	355.7	247.8	21.4		624.9
Total findings	595.3	561.9	67.0	No data available*	1224.2
Profit after tax	7.5	4.1	1.3		12.9

Source: Data are from researcher's compilation of bank reports published on their websites. *The Palestinian Production Bank did not provide any information about its financial activity.

Table 6 indicates an increase in the amount of facilities given by Islamic banks as compared to the amount of deposits. The amount of facilities rose to 50% of the amount of the Palestinian Islamic Bank and Arab Islamic Bank findings, and rose to 35% of the National Islamic Bank taking into consideration its recent establishment. This is a clear evidence to the degree of demand for Islamic facilities in Palestine as benefitters turn away from Riba-based dealing as a sign of pure religious devotion.

Based on the previous reconnaissance between small business owners the study concludes:

- Fear of demanding Islamic financing resources for its high costs compared to Riba financing.
- Limited motivating facilities towards Islamic financing formulas.
- The process of granting or abstaining from giving funds is up to the mufti's mood who receives his salary

from the bank under the circumstances of not having legitimate evidence¹⁴ to whether Palestinian Islamic Banks are legal or whether the mufti should not receive payment from whom he's given fatwa to.

- Islamic banks follow the same procedures of those in commercial banks with a level of intensity in case of loss or bankruptcy.

Small business owners face the same problems they face with commercial banks in terms of difficulty to attain funds for the same reasons related to low guarantee levels and the fact that this is a new experience in addition to their inability to bookkeeping.

Conclusions

- The traditional banking sector is unable to take the lead to share the risk with Palestinian productive sectors to enable it to take its place in generating national economy.

- The entry of Islamic banks into financing market in Palestine opens new funding ability for Palestine small enterprises which could be beneficial for these projects to raise their contribution to GDP.

- Modern Palestinian experience did not allow Islamic banks to deploy and access all credit applicants.

- The inability of Islamic banks to create financing mechanisms suited to the circumstances of the Palestinian case.

- Musharaka (Partnership), Ijarah, and speculation are suitable forms of Islamic financing methods for small businesses.

- The second version of Murabaha is mostly used in Islamic finance which could lead the banks and dealers to financing form similar to traditional funding as a result of the intense competition between banks and fast changes in financial forms in the world of finance and business.

- The laws and procedures of transaction in the Palestinian banking sector can not be applicable to Islamic banks.

- Small enterprises suffer from poor funding for two main reasons, mismanagement and bad bookkeeping, and their inability to provide the required guarantees for the credit requested.

- High interest rate (margin) on the price in case of murabaha, makes it greater than or equal to conventional interest rates, inducing credit seekers before ideological problem making them refrain from funding request for fear of falling into taboos of interest rate.

- There is no strategy in Islamic banking or monetary authority or the Palestinian Government to activate the role of Islamic banks in SME financing.

- The absence of small projects sponsor obstructs their offer to activate their contribution to the national economy, although the Monetary Authority claims the responsibility for small projects but it's nothing more than collecting information which is not available for researchers.

Recommendations

The research concluded that the Palestinians must develop a strategy for Palestinian Islamic banks to play their part for giving greater attention to increase the size of Islamic financing under credit facilities to productive sectors in General, which will in turn generate employment and alleviate unemployment in Palestine, leading to economic development and employment through an integrated strategy to push small projects to

¹⁴ Legitimate Evidence is a forum that explains the legitimate and administrative procedures followed by banks in the process of granting credit, in order to prevent Muftis' moodiness in passing rulings and obscurantist procedures.

raise its contribution to the Palestinian national economy under strategies consisting of following recommendations:

- Expanding financial and logistical bases for Islamic banks to match the base of commercial banks in asset size and the size of the facilities.
- Creating funds to ensure Islamic cooperative insurance to enhance the ability of banks to grant funds for small projects in the framework of the current risks.
- Select bank classification strategies for conventional and Islamic banking service together for small installations.
- Creating a reserve for credit risk which could face the credit facilities granted to these enterprises.
- Design a mechanism for integration between traditional banks and Islamic banks, investment funds and the Monetary Authority with the private sector and chambers of Commerce in the national institutional framework, to enable small enterprises to obtain financing and can access to financing sources.
- Reduce costs of Islamic finance as a competitor to traditional financing.
- The national framework is working with others to build the information base for strengthening capacity-building rehabilitation of small projects, technical and administrative strengthening administrative capacity and financial accounting which is reflected on their ability to market new cash payment implications to get Islamic finance.

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