

FINANCIAL INCLUSION OF SMALL & MEDIUM ENTERPRISES: AN ANALYSIS OF IJARAH BASED FINANCING

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Abstract: *This study critically analyses a particular case of Islamic financing “Ijarah”, availed by a small business that was previously unbanked and eventually attained exponential business growth. Ijarah is a rent based financing contract based on Islamic principles, in which the use of an asset is rented out for a particular period against a pre-defined rent. Using qualitative analysis of data collected through interviews, observations and relevant documentations, a number of important conclusions are derived for practitioners and academicians. First, the case highlights the importance of customer engagement for a successful business. Second, this case represents how Ijarah financing proved to be a driver of financial inclusion and helped the customer achieve exponential growth in business volume and size. Finally, based on this analysis the study suggests a number of practical recommendations for the Islamic banks and the Small & Medium Enterprises (SMEs).*

Keywords: *SME Financing; Financial Inclusion; Islamic Finance; Ijarah Financing*

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Introduction

Financial inclusion, as defined by the World Bank, means “that individuals and businesses have access to useful and affordable financial products and services that meet their needs- transactions, payments, savings, credit and insurance-delivered in a responsible and sustainable way (The World Bank Financial Inclusion Overview, 2021).

The first step towards financial inclusion is having a transaction account that makes it possible for individuals and businesses to store, send & receive money and even to have access to other more useful financial services. The World Bank Universal Financial Access Initiative 2020, therefore also has this as a main focus item. The ground reality however is that an estimated 2 Billion adults worldwide do not have a transaction account which shows that more than half of the world’s total adult population is deprived of using financial services that could dramatically help improve their lives (CGAP, 2021). On this front, the situation in developing countries where poverty prevail the most is even worse. For example, the World Bank’s Global Financial Inclusion Index (Findex) shows that in Pakistan 21.3% of the adults do not have a transaction account, almost three times less than what is the level of overall South Asia where this percentage is 69.6%. Above that, this figure has grown at a slower rate for Pakistan as

compared to that for South Asia i.e. it grew from 10.3% in 2011 to 13% in 2014 for Pakistan while 32.4% in 2011 to 46.5% in 2014 for South Asia (Demirguc-Kunt, Klapper, Singer, Ansa, & Hess, 2018).

Financial Inclusion is commonly discussed in terms of the individual’s access to financial services, however, businesses and especially the small and medium ones are also a subject of this discussion. This is further evident from the World Bank’s definition of financial inclusion that also includes “businesses” to stress upon this aspect. While the credit institutions for Small and Medium Enterprises (SMEs) & Microfinance institutions worldwide are designed to focus this area, the situation seems not improving at a good pace and needs the involvement and efforts on the part of commercial and cooperative banks, particularly in case of the developing countries such as Pakistan.

This paper presents a thorough analysis of a particular success case of Ijarah financing availed by a local Pakistani SME in the gold business. The case is an example of how Islamic financing can prove a driver of financial inclusion and how the SME achieved tremendous growth. The SME under study was completely unbanked before it availed Ijarah financing, mainly on voluntary grounds so as to avoid involvement in interest. However, as the SME needed to expand its business, the faith driven

owner decides to approach a local Islamic bank for financing. The bank rejects their case of financing on a technical ground which according to the bank was a justified move. However, after some time the owner meets the representative of another Islamic bank who effectively engages with the customer and eventually arrives at an Ijarah financing solution for the customer. The SME resultantly achieves greater financial flexibility and hence tremendous growth in its business and turns not only into a satisfied customer but also an advocate of for the bank as well as for Islamic Finance. The case presents a number important lessons and examples for practitioners of Islamic Finance, the SMEs and the academicians.

In the next section, Section 2, a brief review of the related research literature on the subject is presented before explaining the details of Ijarah mode of financing and its working mechanism in Section 3. In Section 4 the methodology and data collection procedures are explained. A complete account of the details of the Case is presented in Section 5. The various aspects of the case are analysed in Section 6. Finally Section 7 concludes the study along with important lessons and policy recommendations for Islamic Banks.

Literature Review

The research literature on SMEs Financing highlights a number of

reasons why the SMEs have a limited use of financial services in emerging countries. First of all, the uncertain and unstable economic and political conditions, corruption and technological constraints in emerging economies makes it harder for the small firms to have an easy access to external financing as compared to larger firms (Rasheed, et al., 2019). SMEs in such countries therefore rely more on internal resources and informal financing arrangements (Berger & Udell, 1995; Berger & Udell, 2006; Beck, et al., 2008). Second, information asymmetry problems are often high in small firms as compared to larger ones. This prevents the banks from advancing financing to such firms so as to avoid adverse selection and moral hazard problems (Stiglitz & Weiss, 1981; Yang, Chen, Gu, & Fujita, 2019; Saito & Tsuruta, 2018). Third, banking sectors are often concentrated causing further difficulties for SME financing. Fourth, market failures, institutional weaknesses and hence an overall weak investment climate poses further problems for SME financing (Aterido, Hallward-Driemeier, & Pages, 2011; Laeven & Woodruff, 2007; Love, 2003). In addition to these, in Islam-majority countries, individuals and SMEs may even also be financially “self-excluded” due to lack of financial literacy and their avoidance of the financial system because of the involvement of interest-

based transactions (Er & Mutlu, 2017; Karim, Tarazi, & Reille, 2008). However, Islamic Financial Institutions (IFIs) in such countries can play a vital role in achieving financial inclusion. Islamic modes of finance are based on the principles of social justice, inclusion, and sharing of resources between the rich and poor sectors of an economy. It is therefore a great tool of financial inclusion. Islamic finance can help in achieving financial inclusion in two ways; firstly, through promoting contracts that are based on Profit and Loss sharing as opposed to the exploitative debt-based financing, and secondly, through its ability of effective redistribution of the wealth (Mohieldin, Iqbal, Rostom, & Fu, 2011). Moreover, Islamic modes of financing, and specially Ijarah, does not involve the problems and hurdles that are commonly suggested to be barring SMEs from using conventional bank financing such as, information asymmetry (Binks, Ennew, & Tand Reed, 1992; Saito & Tsuruta, 2018), lack of collateral (Voordeckers & Steijvers, 2006; Nkwabi & Mboya, 2019) and limited managerial experience (Martin & Staines, 1994). In case of Islamic financing in general and through Ijarah in particular, these issues are removed to a great extent by features like profit and loss sharing mechanisms, lesser need for additional collaterals and information transparency.

Ijarah financing commonly offered by Islamic banks is a hire purchase (lease to own) type agreement. In this type of contract, the bank purchases some reusable asset such as equipment, a building or an automobile and then leases it out to clients in return for agreed regular rental payments. The facility may or may not eventually end up in a transfer of the title of that asset to the client at the end. It is however, commonly associated with an agreement by the client to purchase the merchandise at the end of the lease period. (Khan, et al., 2018; Adeinat, Rahahleh, & Bhatti, 2019).

In Pakistan Islamic banks started offering the Ijarah facility as soon as the Banking Companies Act of 1962 made it possible to introduce some leasing and hire purchase arrangements (Adeinat, Rahahleh, & Bhatti, 2019). In 2014, in Pakistan more than 600 Islamic banking branches and 19 Islamic banking institutions were offering Islamic financial products and services (Sohail, Hamza, Ijaz, & Azeem, 2014). Among all the other financing products, Ijarah soon got popular and accounted for a greater part of all the financing offered by Islamic banks. A review of the relative popularity of Islamic financing products in Pakistan by Ahmad Awan, & Malik (2011) shows that in 2008, only Ijarah and Murabaha accounted for around more than 50% of the total

financing provided by Islamic banks in the country.

The rapid popularity of Ijarah financing in Pakistan can be attributed to a number of reasons. First, the very structure of this type of financing makes it a choice of fixed asset financing for not only the banks that offer it but also for the customers who use it. It is a relatively secured way of financing that needs no or little collateral requirements. Ijarah also eliminates the need for frequent monitoring and control on the part of Islamic banks as the funds under Ijarah cannot be misused or put to uses other than the purpose for which it is acquired by the customer (Hadisumarto & Ismail, 2010). Secondly, in Pakistan there are a number of reasons customers prefer Islamic and Shariah compliant financing products (Khan, Ud Din, Khan, & Javeed, 2020). These features suggest that Islamic financing has a great potential for Individuals and SMEs in Pakistan that are largely unbanked or financially self-excluded to benefit from financial services that are more aligned with their needs and are also consistent with their beliefs in terms of being interest free. However, the existing literature on the financing of SMEs in Pakistan presents little evidence on the potential role of Islamic financing in ensuring financial inclusion of the unbanked SMEs.

This paper present a case study of Ijarah financing availed by a local SME that was previously unbanked largely due to the presence of interest in financing facilities conventionally available to them. By analysing the case it is particularly intended to address the following questions for the benefit of researchers and academicians in the area of Islamic finance:

1. How potential Islamic Banks are, in contrast to conventional banking, in achieving financial inclusion?
2. How compatible Islamic Banking is with the needs of the SMEs and how it can contribute to their growth?
3. How can customer engagement at Islamic banks lead to customer satisfaction and value co-creation?

The Ijarah Financing: How it Works?

Businesses, especially small and medium ones such as the one in this case study, often face situations where acquiring heavy or technical machinery is costly and may need conventional financing. However, as we mentioned earlier, due to information asymmetry, lack of managerial experience and lack of collaterals, conventional financing is not often the first and only choice of the SMEs in such situations. On the other hand, Islamic financing tools such as Ijarah are the Shariah (Islamic law) compliant and non- interest based solutions for such situations. It is a contract under which the use of an asset

or service is rented out for a particular period against a pre-defined price (rent). This can take the form of even ending into the transfer of ownership to the user at the end of the specified time period at a minimal price or as a gift. Thus Ijarah is much like a counterpart of the conventional operating and financing lease agreements. However, the Ijarah agreement is subject to a number of rules and conditions necessary for its validity.

A normal Ijarah contract is the one in which ownership of the leased asset is not transferred to the lessee at the end of the contract term. While Ijarah-wa-Iqtina are Ijarah contracts that do end up with a transfer of leased assets' ownership to the lessee (Please see Figure 1). Khan, et al., (2018) explain Ijarah contracts used by Islamic banks in the following words;

"In a typical Ijarah financing contract by banks, the bank would buy the equipment or machinery (the bank may purchase the asset as per the specifications provided by the prospective client) and lease it out to its client. The bank retains the ownership of the asset and the client has possession and use of the asset on payment of specified rentals over a specified period. The period of lease, which may be from three months to five years or more, is determined by mutual agreement, according to the nature of the asset. Since the rentals are often insufficient to enable the Bank (the Mujir/Lessor) to

recover fully the initial capital outlay, the residual value is later recovered through disposal or re-leasing the equipment to other users. The Ijarah in this shape is much like the conventional 'operating leases' where the asset is leased out for a period of time defined specifically at the time of the contract."

Further they continue to elaborate on Ijarah- wa-Iqtina in the following words;

"Like Ijarah, Islamic Banks also use Ijarah- wa-Iqtina as a financing tool. Given the client's promise to lease from the bank, the bank will purchase, for the client and in the bank's name, an asset specified in the client's promise and then lease it to the client on similar terms to a conventional financial lease. The Contract is structured in such a way that at the end of the lease period, the bank transfers the ownership of the asset to the client for a nominal sale price, or as a gift by a separate sale or gift contract at the end of the lease period." Practically, Islamic Financial Institutions applied Ijara Muntahia Bittamleek which is generally referred as Ijarah. It includes a promise by the lessor to transfer the ownership of the leased asset to the lessee, either at the end of the lease term or in stages during the term of the contract (Khan, et al., 2018; Ansari, 2007).

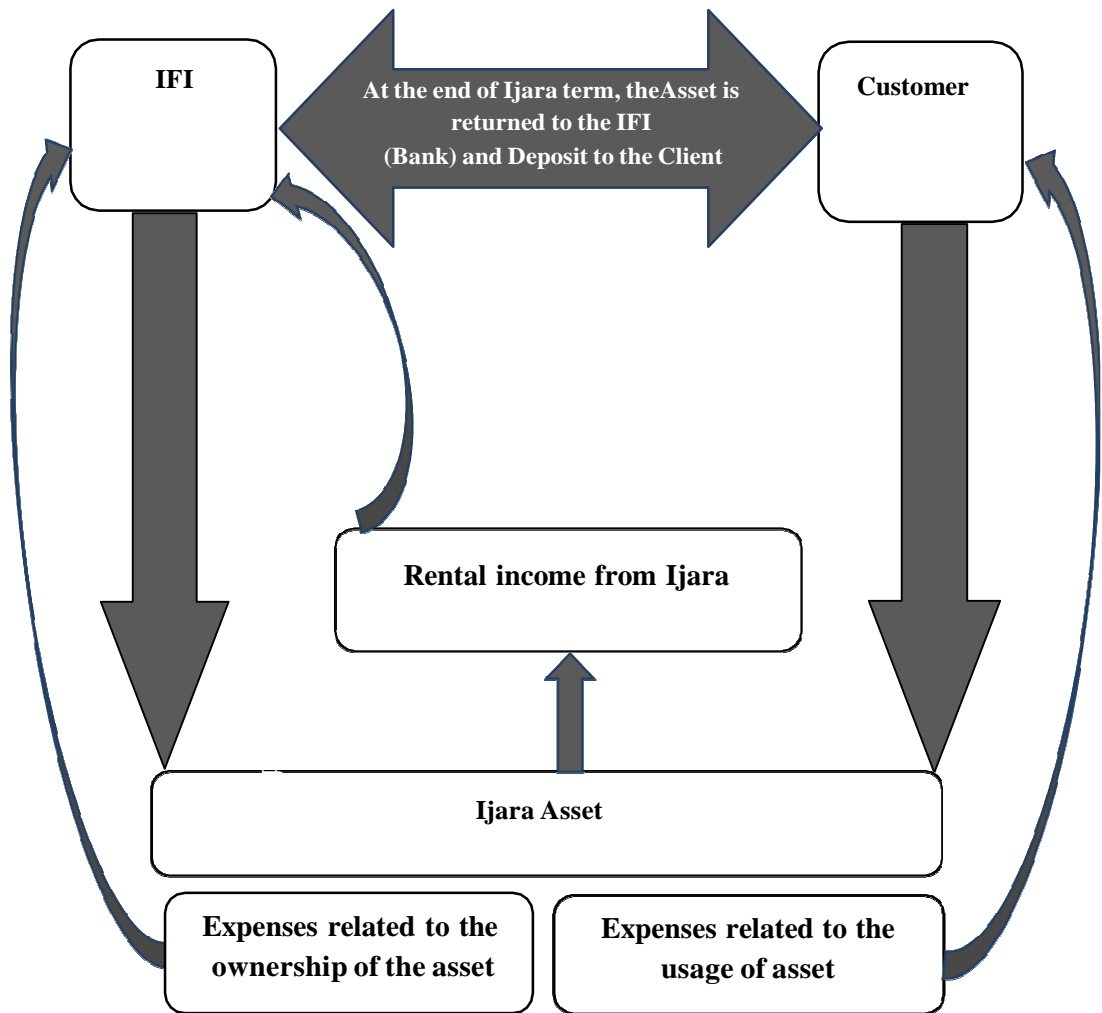
According to Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) an Ijarah-wa-Iqtina may take one of the following forms:

1) Ijarah-wa-Iqtina that transfers the ownership of leased assets to the lessee – if the lessee so desires – for a price represented by the rental payments made by the lessee over the lease term. At the end of the lease term, and after the last instalment is paid, legal title of the leased assets passes automatically to the lessee on the basis of a new contract.

2) Ijarah-wa-Iqtina that gives the lessee the right of ownership of leased assets at the end of the lease term on the basis of a new contract for a specified price, which may be a token price.

3) Ijarah-wa-Iqtina agreements that give the lessee one of three options that he may exercise at the end of the lease term

Figure 1: Flow of Transaction in Ijarah



I. Purchasing the leased asset for a price that is determined based on

rental payments made by the lessee;

II. Renewal of Ijarah for another

term;

III. Returning the leased asset to the lessor (owner).

Research Methodology

The approach we use in this study is the case study method. It is a particular type of Qualitative research methods that is usually adopted for gaining an in-depth analysis of a particular phenomenon. Qualitative research methods enable the researchers to study people, social, and cultural contexts within which they live. According to Patton (1991), the data set of the qualitative methods is based on the: personal and professional observation; fieldwork or participants' observation; interviews (both structured and semi-structured), questionnaires (close or open ended), relevant documents, and various texts etc. The level of understanding in qualitative research is based on a detailed knowledge of the particular phenomena (Cepeda & Martin, 2005).

According to Cepeda & Martin (2005), case study method is the investigation of a phenomenon in the context of real life situations. The research paradigm based on case study can be positivist, interpretive, or critical analysis depending upon the philosophical foundation and the underlying assumptions of the researcher. Our approach is largely inspired by the argument of Hyde (2000) who posits that if studied in a sufficient rigour, even a single case can provide the basis for a

theoretical explanation of a general phenomenon.

Data regarding the particular case that we analysed was collected through interviews, study of relevant documents and personal observations by the authors. Semi-structured interviews were conducted with the concerned employees of the Islamic bank who were involved in this particular Ijarah financing product and with the CEO and employees of the customer firm i.e a small jewellery firm. As a first step, Interviews were audio-recorded which were later transcribed by the three members of research team separately. Simultaneously, notes were also taken by all members of the research team during these interviews. As a second step, findings from these transcription and notes were discussed and agreed upon by the research team after going through a series of meetings.

Relevant documents that were consulted in support of the data collected through interviews included Ijarah financing agreements signed between the bank and the customer and the payment schedule/history and financial reports of the customer. The authors also visited the jeweller's showroom, shop and main factory for the purpose of critically examining the machinery at work obtained through Ijarah financing from the Islamic bank.

The Case in Point

This study presents the case of an Ijarah financing facility availed by a small Pakistani based Gold Jeweller, the SZS Jewellers (the name of the business has been modified for the sake of maintaining anonymity) which was a previously unbanked business setup. In the sections below we first give a brief background of the business setup and expansion plan of the business and then explain in detail how the SME went through different experiences in finally obtaining the Shariah compliant financing that helped achieving a boost in its business.

The SZS Jewellers

SZS Jewellers is one of the leading manufacturers and distributors of latest and sophisticated gold designs in KPK, a third largest province of Pakistan with the population of more than 30 million. As of today, it is a registered partnership concern with an employee base of 30 people and having a book value of total assets of more than Rs. 70 million including the latest machinery of more than Rs. 40 million. The business unit includes a designing and manufacturing factory, gold testing laboratory and a display centre. There are just a few competitors of SZS Jewellers in the country. These competitors are located in Lahore and Karachi – the two largest cities of Pakistan.

Previously the jeweller's main business was the sale of jewellery & gold testing. In 2010, the CEO decides to bring an innovative shift from its current business of sale of jewellery & gold testing to into making of specialized fine gold chains, thereby importing highly technical and specialized machinery. The SZS jewellers at that time were thus the first ones to import this machinery and produce the product (the fine gold chains) in the country. However, being short of finances to import this highly specialized machinery, the CEO of SZS jewellers, decides to approach an Islamic Bank, the Z-Bank (the name of the bank has been modified for the sake of maintaining anonymity) for embracing on its first ever banking relation.

First Impression is not the Last Impression

The CEO of SZS Jewellers Mr. Aslam, having a strong religious background and having never been a client to any bank, approached the Z-Bank, a leading local Islamic bank, to finance his new initiatives by importing relevant machinery from Italy.

Z-Bank offered Ijarah financing option to SZS Jewellers and asked for following the multi-step formal process and submission of required documentation. As SZS Jewellers embarked on it's first ever banking journey, documents kept on piling up

and changing hands and the case ran through the slow pipelines of the bank's procedures. However, surprisingly, after six months, Z-Bank ultimately rejected the case for financing, leaving SZS Jewellers into utmost disappointment with its first ever encounter with any bank and even with Islamic banking as well.

In our interview, the CEO of SZS Jewellers, Mr. Aslam replied to our question as to, *why the Z-Bank rejected your case for financing?*, replied;

“The Z-Bank's official informed us that despite you fulfil the documentary requirements; however, there is a technical issue that we do not invest in businesses involved in the gold business we therefore cannot finance your project”.

It was astonishing to know that a bank primarily promoting equity based banking and undermining speculative banking system finally declared not to finance a business of gold, the most accepted equity tool.

Further, Mr. Aslam also showed his dissatisfaction in the following words;

“It was our first interaction with any bank and we were disappointed by their behaviour of engaging us for such a long time for completion of documentation and then finally rejecting our proposal”.

The Birth of a Win-Win Relationship

In 2011, the owner & CEO of SZS Jewellers, Mr Aslam, in a social

occasion, met the officer of another Islamic bank the BK-Bank (the name of the bank has been modified for the sake of maintaining anonymity) and shared his previous experience with him. The officer of BK-Bank successfully convinced him not only about the benefits and distinct features of Islamic Ijarah financing and also assured of the simplified and quick processing of his case. It was there that the foundations of a long lasting blend of customer engagement, mutual win-win relationship, successful financial inclusion and real economic impacts of Islamic finance were laid.

Ultimately, in 2011, the BK-Bank offers an Ijarah-wa-Iqtina financing to SZS Jewellers for the import of highly technical machinery, manufactured by an Italian company. The machinery was vital for the SZS business re-orientation in the sense that it is used to manufacture very refined gold chains which were not offered or manufactured by any other manufacturer at that time in Pakistan.

An employee of BK-Bank in or interview replied, when asked about “whether the financing helped the customer achieve its goals and whether he came back for further banking relations or financing after that experience?”

“The financing helped a lot the customer in achieving not only its goals but also in exponential business growth in many

aspects. The example of which is that SZS jewellers came back another three times to finance the purchase of three more machines, i.e. in 2012, 2014 and then the latest one in 2018. Moreover, the customer arranged a ceremony in favour of the BK-Bank inviting other goldsmiths in the market and shared its success story”

The documents of the business growth as shared by the bank officer and the interview with the owner further confirmed these facts. It was found that, SZS had only one shop in 2011 at the time when they came to the bank for financing, today i.e. in 2018, they have four. The manufacturing facility in 2011 was in a rented building in 2011, today that very premises is owned by the firm. Mr. Aslam had only four employees at the start, today he has a team of 30 experts. In addition to this the business has shown manifold expansion during the period from 2011 to 2018 in terms of facilities, designs, clientele, geographic outreach, growth in sales and revenue, and asset base etc. This is also evidenced from the fact that their financing for the latest machinery has also reached to Rs. 8.5 million in 2018.

Mr. Aslam, when interviewed, confirmed these figures and added that they are designing more than 10 types of jewellery now as compared to 2011 when we started off with a single design. Their clientele have grown

from 30-40 clients in 2011 to more than 300 clients in 2018; their outreach is expanded to Punjab and Kashmir from Peshawar; achieving for them a growth of more than 100% in terms of sales and assets etc. They have a bunch of very expert employees which has also now become not only a precious asset but also their competitive advantage. And finally, they have a very state of the art computer driven designing and calculating system and have a very secure control mechanism for safety and security. For a comparison of the comparison of the SZS jeweller’s business in 2011 vs. 2018, (Please see Figure 2).

Analysis and Discussion

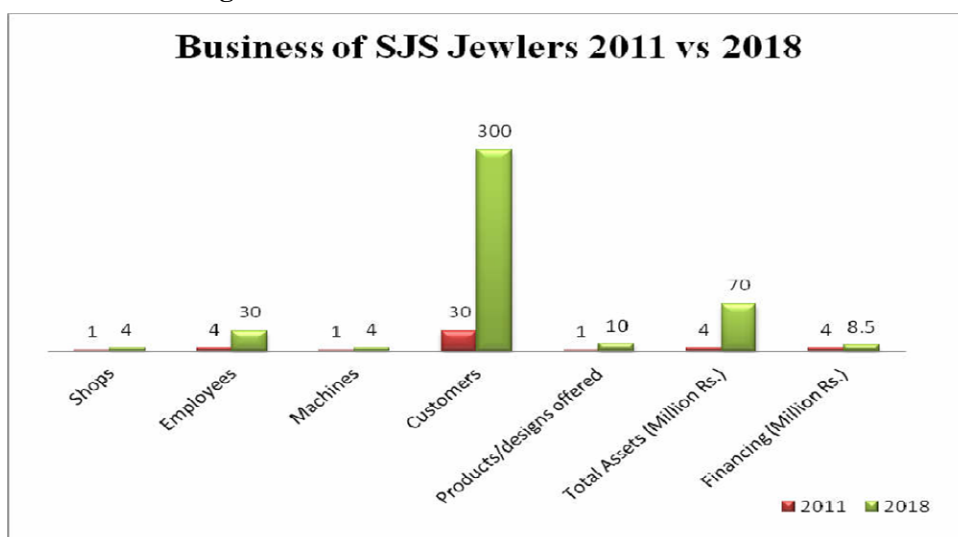
The exponential growth of SZS in a very short span of time after availing the Islamic finance facility presents itself as a success story of Islamic finance and as a case of analysis for drawing lessons for practitioners and academicians. It is an exemplary case having implications of relevance to a number of concepts and practical ideas ranging from customer engagement & employee commitment through financial inclusion and SME financing to the real economic impacts of Islamic finance and poverty eradication objectives. In the following paragraphs we shed light on these aspects of the case from a critical angle.

Analysing the Rejection of Financing SZS by Z-Bank

The very first noticeable thing in the case is the rejection of the financing case of the customer by Z-Bank. It seems surprising that an Islamic bank which is expected to be the driver of economic growth and financial inclusion

rejects the case of a previously unbanked SME. However, in Pakistan Z- Bank is considered to be amongst the list of those Islamic banks that pioneered and promoted Islamic banking in the country not only in its early stages but even today.

Figure-2 Size of the SZS Business 2011 vs. 2018



We therefore tried to gather further details of their rejection of this case. It was found during our interviews with the Customer (the CEO of SZS Jewellers) and the BK-Bank’s officer that the main objections of the Z bank were;

- 1- The nature of business of SZS Jewellers, namely the Gold business.
- 2- The nature of transactions of SZS Jewellers, i.e. because SZS Jewellers do not accept cash payments and charge their customers only in gold.

We, therefore analyze here why the gold business is usually amongst the list of non- Shariah compliant businesses at some banks and whether this really applied to the SZS jewellers?

Gold, Merchandise or a Medium of Exchange?

What is already peculiar and different to this business is the very “store of value” nature of the gold itself. Gold is something that not only, being a metal, has its metallic properties and uses but at the same time, due to its precious nature and its consistent historic use, possesses the properties of money too.

From being precious, widely acceptable and able to store value to divisibility and durability it has all the characteristics of good money. It is due to these dual features that those doing the business of manufacturing golden ornaments have a possible embedded speculation in their business. Further doubts are added to this by the jewellers' common norm and practice of accepting payments and making receipts only in gold.

Hull (2014) classifies commodities in two categories; investment assets and consumption assets. An investment asset is the one which is held by a significant number of people/investors for investment purposes such as stocks and bonds. On the other hand a consumption asset is the one held by a significant number of investors for consumption purposes and not for investment for example, copper, oil, wheat etc. Hull (2014) further explains that for an asset to be classified as an investment asset, it not necessarily has to be held exclusively for investment purpose rather it must fulfil the condition of being held by a significant number of investors for that purpose exclusively. He therefore, based on the use and purpose of holding of gold and silver by majority of the investors, classifies these metals to be investment assets.

The discussion of Gold being merchandise or a medium of exchange or a consumption vs. investment asset is

important because this is what determines the speculative nature of this precious metal and more importantly the Shariah compliance of the gold business and of the payments system based solely on gold. More specifically, being medium of exchange gold can simply not be exchanged for an unequal weight and quantity of gold in return. The Hadith of the Prophet SAW regarding Riba al Fadl and all its rules would apply here i.e. "Gold for Gold, Equal for Equal and Hand to Hand".

On the other hand if Gold is treated as an investment asset, then short selling and forward and future pricing based on arbitrage and interest rates will be applicable to it and hence can be used for speculative purposes. Therefore goldsmiths can be thought of as doing a business that entails not only commodity trading but also investment and speculation specifically if the payments and receipts are made in terms of gold only.

However, as we analyze the SZS case, it is evidently found that none of these things actually apply to their case. No matter they receive payments in terms of Gold only, but the payment is justified in two ways, first, because the payment is not just an "exchange of gold for gold" rather it is a compensation of the service (manufacturing) they do. Secondly, this way of payment cannot at all be taken as a burden on the customer

too. SZS Jewellers do not deal with individuals rather they deal only with jewellers who would bring their gold (raw or ornaments) and SZS then makes the chain designs for them. Hence it is a convenient way for both their customers as well as for them to settle in this way.

We can therefore deduce from this discussion that Z-Bank in fact failed to assess the case properly from a Shariah point of view and their decision was not justified.

Moreover, having said this, financing a Gold- Business by an Islamic business should be a matter of through investigation not only on the part of the banking operations (the branch) but also on the Shariah Board level as well.

A Satisfied Customer – An Advocate of Islamic Finance

Because of their belief in Islamic Finance and their strong relationship with BK-Bank, SZS arranged a special function for the entire market in “Jeweller’s Street” and invited officials of BK-Bank to create awareness about the benefits of Islamic finance. Speaking to the gathering Aslam explained the potential and benefit of financing from an Islamic bank. He talked about his experience and the resultant growth in the business. He highlighted that the Islamic Finance facility is much cheaper than the credit facility provided by the traders and manufacturers for the purchase of machinery. He specifically mentioned the personal satisfaction and

the “Barakah” (multiplier effect of blessings) in his business because of avoiding the interest factor involved in conventional financing facilities. He also suggested to the Islamic Banks that they should have a complete checklist of processes and required documents so that the client can have a clear picture of the specific product. The remarks of Ulema (Shariah Scholars) should also be part of the document to attract the faith driven customers.

Analyzing the Customer Engagement at BK-Bank

SZS Jewellers exhibit an impressive case of engagement with BK-Bank. According to Brodie, Hollebeek, Juric, & Ilic (2011):

“Customer engagement (CE) is a psychological state that occurs by virtue of interactive, co-creative customer experiences with a focal agent/object (e.g., a brand) in focal service relationships. It occurs under a specific set of context dependent conditions generating differing CE levels; and exists as a dynamic, iterative process within service relationships that co-create value. CE plays a central role in a nomological network governing service relationships in which other relational concepts (e.g., involvement, loyalty) are antecedents and/or consequences in iterative CE processes. It is a multidimensional concept subject to a context- and/or stakeholder-specific expression of relevant cognitive,

emotional and/or behavioural dimensions.”

Moreover, CE is a psychological process that models the underlying mechanisms by which customer loyalty forms for new customers of a service brand as well as the mechanisms by which loyalty may be maintained for repeat purchase customers of a service brand (Bowden, 2009).

Mr. Akram the officer at BK-Bank who dealt with the SZS case, showed a sheer professionalism by talking to the Islamic bank where Aslam initially attempted for financing and then opening door of BK-Bank for a person who desires faith based financing opportunity. It would have not been easy for Mr. Akram to decide about new avenue, however, he intelligently grasped the opportunity for others to follow that opportunity does knocks the doors of Islamic finance, it is the responsibility of Islamic finance practitioners to analyse every occasion and take decisions for the success of IFIs, because our every decision matters and determines the fate of the segment.

This discussion thus highlights the following points;

First, customer engagement is vital and plays a role in business growth for not only the customer but for the bank as well.

Second, employee loyalty is at the heart of customer engagement. It is only a loyal employee who can think in terms

that paves the way for effective customer engagement.

Third, reasons of financial exclusion may lie beyond the customers end. Dealing with a financially excluded customer and then especially an SME needs special attention and banks must pay additional attention to such cases.

Analysing the Overall value Co-creation

The exponential growth in the business of SZS Jewellers through the Ijarah financing from B-Bank resulted in a unique win-win situation that made possible to create a collective value for not only the bank and the customer but also for the whole society. In this regard the following things are particularly highlighted;

The availability of financing and its financial flexibility for the SZS jewellers through Ijarah made it possible for the SZS jewellers not only to diversify and reorient its business but it also the foundations a new market in the gold jewellery business in the country. This resulted further in the creation of jobs and business opportunities in the region.

The financing also made it possible to Transfer Technology. The import of that specialized technology through conventional financing from the producer was unaffordable for the customer. The customer had a chance to import it with the Ijarah financing in an

affordable as well as Shariah compliant way.

The financial flexibility in Ijarah and exponential growth in business for SZS turned SZS, a financially excluded SME into a financially included productive entity.

The successful business terms on SZS jewellers with the bank, turned the customer from a de-motivated one from banking sector into a satisfied one. This further resulted in promotion for the bank in specific and for the Islamic finance industry in general.

Conclusion and Recommendations

The case presents itself as an excellent natural experiment where on one hand a number of theoretical concepts can be observed in action and on the other hand provides important lessons for practitioners and academicians. First of all it highlights the importance of customer engagement. The rejection of SZS Jeweller's case by Z-Bank and his subsequent acceptance by BK-Bank both show how engagement and not engagement with a customer can make an important difference for the customer itself as well as for the bank. This further shows that the lack of customer engagement may also be one of the contributing factors to the failure to attract the unbanked. The case also highlights how the commitment and loyalty of an employee of BK-Bank resulted in a success on many fronts, for example; providing the appropriate

guidance and solution for the customer's needs, contributing to the overall society and economy through financial inclusion of an unbanked entity and earning business and promotion for BK-Bank in specific and for Islamic Finance in general. Further, the contribution of Ijarah financing in the exponential growth in the business and size of the SZS Jewellers in a short span of time also reflects the real economic fruits of Islamic Finance at play at the SME level.

Based on our analysis of the case we present the following suggestions/recommendation to be adopted not only at the branch levels in Islamic Banks but also as overall strategy.

Recommendations

1. Never lose a customer who is driven by faith rather than price
2. Come out of comfort zone and explore the hidden opportunities
3. Make a checklist of the documents required for the assessment of the business and the bankability of the client
4. Make a communication plan to update the client about the possible decision regarding the financing facility to avoid any delay and make the client ready in case of adversary.
5. Make the decision process quick and correct
6. Personal level contact with the

customer leads to a lasting relationship

7. Keep the employees updated and involved in developing creative and innovative solutions to a given problem
8. Involve the customers with success stories for awareness programs

The authors hope that the research will enhance the understanding of the researchers and academicians the importance of financial inclusion for SMEs through the application of Ijarah financing. The study will help the financial institutions, especially commercial banks to develop their Islamic Finance products for SMEs to not only generate profits but also to facilitate the uplifting of this generally ignored economic sector.

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