

A Proposed Financing Framework for SMEs: Exploring the Case of Şukūk

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Abstract. The purpose of this study is to explore the purported role(s) of employing Şukūk as a source of finance in the field of SMEs. This study contributes to the growing stream of SME financing studies by examining "why" and "how" Şukūk can be institutionalised as an additional innovative source. The study proposes an empirically-informed SME financing framework using Şukūk. To illustrate this, a qualitative approach is adopted using semi-structured interviews and publicly published secondary materials. Distinct from the previous literature and efforts, this study reveals the powerful role of Şukūk in financing SMEs, especially in the Organisation of Islamic Cooperation (OIC) developing economies. A multi-faceted financing framework is developed with two distinct SME Şukūk: investment Şukūk and charitable Şukūk. SME Şukūk can be institutionalised into a multi-scenario traditional model and a digital model based on the ideology of crowdfunding. SME charitable Şukūk can be institutionalised using two different Şukūk tools: Waqf and Ihsān.

Keywords: SMEs; SME financing; Şukūk; financing framework; OIC countries; Waqf-based financing framework

JEL Classification: G10, G15, G20, G21, G23

KAUJIE Classification: E23; H55; I0; I3; I6; J4; K0; K16

1. Introduction

Small and medium enterprises (SMEs) are widely recognised as a vital catalyst for economic growth and development, particularly in developing and emerging economies. They contribute considerably to macroeconomic indicators such as gross domestic product (GDP) and employment rates. SMEs provide employment opportunities to both skilled and unskilled workers, with over 90% of the private sector in developing countries being composed of SMEs, employing more than half of all workers (World Bank, 2017). These businesses operate in all economic sectors, promoting economic growth and fostering innovation in promising industries. In Arab economies, SMEs contribute up to 40% of GDP, with 97% of businesses in the Arab world and 80%-90% in the Middle East and North Africa (MENA) being SMEs. The sector also employs over 50% of the private sector workforce in some economies in the Arab world and the MENA region (IMF, 2019). Additionally, SMEs play a crucial role in promoting entrepreneurship, serving as the backbone of this field despite their limited resources. The significance of entrepreneurship-based SMEs lies in driving economic growth and development in any given economy.

Despite the socio-economic importance of the SME sector, it lacks adequate support to ensure SME survival and growth. According to the World Bank (2017), there is a pressing need for specialised programmes from academic and development institutions to understand and address the various constraints that SMEs face. These limitations include restricted availability of funding, limited access to technology and electricity, insufficient markets, shortage of skilled labour force, unfavourable regulatory environment, and high transaction costs. Among these constraints, access to finance and the availability of funds remain the most severe

obstacles to SMEs' entry, survival, and growth, as highlighted by the International Finance Corporation (IFC, 2017) and the Organisation of Islamic Cooperation (OIC, 2018).

By reviewing the previous and existing literature on SME financing, some studies have recommended the adoption of novel financing tools, especially Sharī'ah-compliant instruments. Among other scholars, as an illustrated example, Abdelrahman (2016) suggested a role to be played by Islamic banks and Islamic non-banking finance companies (NBFCs) to support SMEs. Abdelrahman (2019) and other global reports (such as IIFM, 2020, 2021) reveal that *Ṣukūk* also has a high potential to act as an innovative SME financing tool. Because of the investment quality and distinctive features of *Ṣukūk*, the global importance of *Ṣukūk* has grown rapidly as an Islamic alternative to bonds, particularly after the financial crisis of 2008 (Uddin et al., 2022). But in order for SME *Ṣukūk* to be operationalised, conceptually-built frameworks should be established to explore how SME *Ṣukūk* is structured (and over time institutionalised) within SMEs. The present study attempts to contribute to this by providing a proposed financing framework to examine why and how *Ṣukūk* can act as an emerging financing tool in the field of SMEs.

This study focuses on the developing countries and emerging economies in the Islamic world, which includes member states of the Organisation of Islamic Cooperation (OIC). Islamic finance is highly valued in OIC countries as Muslim investors tend to prefer Sharī'ah-compliant investments that yield halal income. This creates a large market and a growing demand for Sharī'ah-compliant financing products. Besides, OIC member countries dominate the *Ṣukūk* market, with Malaysia holding 49.30% of the market share, followed by Saudi Arabia at 20.10%, United

Arab Emirates at 7.40%, Indonesia at 11.90%, Turkey at 2.55%, Qatar at 1.98%, Bahrain at 1.58%, Pakistan at 1.61%, Oman at 1.05%, and Kuwait at 0.27% (Uddin et al., 2020; IIFM, 2020, 2021).

The rest of this study is structured as follows. Section 2 presents the theoretical background and reviews the literature to demonstrate the literature gap and develop key research questions. Section 3 explains the research methodology and methods. Section 4 conceptualises the theoretical underpinnings of the proposed financing framework in conjunction with empirical data. Section 5 concludes the paper with a critical discussion of the key findings along with the previous literature and paves the way towards future research prospects.

2. Theoretical Background and Literature Review

Previous literature on using Şukūk for SME financing is still at the early stage of empirical studies and theoretical analyses. By reviewing the existing and relevant literature, most previous studies in SME financing have primarily focused on addressing this topic from two main theoretical and analytical perspectives: access to finance, which can be discussed in view of the resource-based view theory, and potential SME financing instruments such as Şukūk, which can be presented through the lens of capital structure theories. These two perspectives demonstrate the research problem and aims of the current study.

To explain this, access to finance is seen as a key source of business growth and development in line with the basic underpinnings of the resource-based view (RBV) theory. As Owusu et al. (2017) explained, RBV applications in SMEs indicated that this form of enterprise

must access financial resources to survive, grow, and effectively contribute to economic development. Based on some publicly published reports, the SME sector suffers from a huge financing gap. For example, among other statistics, the annual OIC report (2018b) revealed that several SMEs and entrepreneurs in OIC countries have seen “access to finance” as the biggest challenge they face when starting their businesses or upgrading their operations. On another side, the 2015 joint study between the World Bank Group and the Islamic Development Bank showed that about 55-68% of SMEs in developing economies (Egypt as an example) are “underserved” or “not served” financially. This lack of financing has resulted in the loss of numerous economic opportunities through which SMEs can achieve their objectives.

The problem of finance was also evident in the World Bank’s bulletins on the SMEs’ economic performance of 128 developing countries (including 39 OIC member countries), which confirmed that the SME financing gap in these countries reached \$5.2 trillion, meaning that over 59% of the demand for SME financing remains unfulfilled (see IFC, 2017). This highlights a significant financing gap that SMEs encounter worldwide, especially in the specific context of developing countries. Such an SME financing gap calls for unfolding new SME financing instruments that would contribute effectively to SME financing to sustain the growth of SMEs. The OECD (2015) has emphasised the need to expand the range of tools and techniques adopted in SME financing. One such innovative SME financing tool suggested is Şukūk, as proposed by Abdelrahman (2019) and IIFM (2020, 2021).

From another and different perspective, Şukūk could be a viable choice for funding SMEs in consideration of capital structure theories.

Corporate finance theories, such as capital structure theories, have been used to explain financing decisions for licensed SMEs (Kumar et al., 2020). These theories have highlighted the different sources of finance that SMEs use, such as equity-based or debt-based finance from either banks or financial markets. The trade-off theory (TOT) demonstrates that businesses aim to achieve the "optimum capital structure" by weighing the advantages (such as tax benefits for interest payments) against the costs involved in debt-based financing (such as probable financial failures). Accordingly, firms establish a target ratio of debt-based funds to be acquired gradually. The Pecking Order Theory (POT) posits that there is no "optimal debt-to-equity ratio" for businesses, with companies prioritising internal funds (such as retained earnings) to finance their investments. External financing is only sought after when internal resources are insufficient. Firms, therefore, opt for internal resources first, followed by debt, and only resort to external equity as a last option (Agyei et al., 2020). These theories were initially designed for larger corporations, but recent research has shown that they can also be applied to SMEs. In a survey conducted by Kumar et al (2020) on 262 studies, it was discovered that corporate finance theories can provide valuable insights into the capital structure of SMEs. While SMEs tend to rely on internal funds, partnerships with friends and family, bank loans when available, or informal credit markets to secure financing, capital structure theories can still provide helpful views for understanding their financing practices.

In this regard, *Ṣukūk* can be suggested as a new source of finance and a component of capital structure. It offers the advantages of both debt and equity-based financing. Like equity-based financing instruments, *Ṣukūk* represents ownership of real assets. Additionally, *Ṣukūk* is similar to bonds in that holders receive periodic

returns until redemption. As the most commonly recognised definition, AAOIFI (2017, p.468) conceptualised (and lined the foundations of *Ṣukūk* under Shari‘ah standard no. 17 entitled “investment *Ṣukūk*”) as “certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the *Ṣukūk*, the closing of subscription and the employment of funds received for the purpose for which the *Ṣukūk* was issued”. Based on this seminal definition, the contractual mechanism of *Ṣukūk* constitutes buyer-seller, lessor-lessee, or partnership relationships instead of a lender-borrower relationship as in the case of conventional bonds (Hossain et al., 2021). More so, *Ṣukūk* has been successful in mobilising financial resources from domestic and international sources. The IIFM report (2021) shows that “globally-issued *Ṣukūk*” has increased significantly from about \$1.2 billion in 2001 to around \$175 billion in 2020, which is seen as an indicator of *Ṣukūk*’s success and effectiveness in raising funds domestically and internationally. This is evident by the employment of *Ṣukūk* in funding infrastructure projects and big corporations. Not only that but *Ṣukūk* has been also allocated for funding businesses within the SME sector, particularly medium-scale enterprises in a few OIC member countries. However, the share of SMEs from *Ṣukūk* funds is still limited compared to other highly-investigated economic sectors (IIFM, 2020, 2021).

The utilisation of *Ṣukūk* in the realm of SMEs presents a potential avenue for expanding the scope of equity-based SME financing by providing ‘temporary equity’. This approach is anticipated to be particularly appealing to entrepreneurs and SME proprietors, including

women and youth. Given that SME owners are often comprised of a limited number of individuals, such as family members and friends, they may not be inclined to accept new co-owners or partners who are empowered to participate in decision-making and business operations. This is the primary reason why SMEs tend to opt for debt-based financing over the commonly-followed practice of equity-based financing (IFC, 2017; Agyei et al., 2020). Unlike stocks and bonds, Şukūk does not burden SMEs with additional borrowed debt nor necessitates the inclusion of new permanent partners in the enterprise. As such, SME owners can access financing with temporary co-partners until the redemption date (Abdelrahman, 2019).

From the above, the existing research problem is based on two main issues that need to be addressed. Firstly, the SME sector experiences a huge financing gap that requires innovative new financing products. Secondly, although Şukūk has been successful in mobilising financial resources, it has limited contributions to SME financing. From this problem background, and in line with the empirical data presented later, there is a literature gap with respect to ‘exploring’ why and how Şukūk can be institutionalised as a powerful tool for bridging the financing gap within the SME field. This study aims to investigate the purported role(s) of employing Şukūk as a source of finance in the field of SMEs. From this, the overarching research question is: What are the possibilities and opportunities of Şukūk for SME financing? This overarching question is divided into two distinct but interrelated sub-questions. The first question is: why can Şukūk be applicable as a powerful tool for SME financing? The second question is: how can Şukūk be effectively institutionalised as an SME financing tool? By answering these

questions, the study provides a suggested financing framework to explain how Şukūk can act as a complementary financing tool for SMEs. This financing framework, as explained below, adds new and different theoretical and financing dimensions compared to other and most common models in the SME financing literature. To the best of the researchers’ knowledge, the current study is among the first to explore the potentialities and prospects of Şukūk in the SME sector. Although previous studies have presented meaningful theoretical frameworks and backgrounds on the issue of SME financing, the current study provides a new context to the studies of SME financing and Şukūk.

3. Data and Methodology

In order to fully comprehend SME financing through Şukūk, a qualitative approach was adopted by using a variety of data sources, including semi-structured interviews and secondary documentation. In all, 20 in-depth interviews were conducted with leading professionals and academics in the Şukūk industry and SME financing from Saudi Arabia, Egypt, Kuwait, Turkey, the USA, and the UK. All interviewees had both practical and theoretical experience in structuring Şukūk. Interviewees were selected through a combination of purposive sampling, where highly qualified specialists were targeted, and snowball sampling, where some participants were asked to recommend other relevant experts. The interviews were conducted in person and virtually using platforms such as Zoom, Messenger, and mobile phones, and lasted from 30 to 180 minutes, covering all aspects of the study. In addition, publicly published secondary materials such as Şukūk prospectuses, offering memorandums of Şukūk, Şukūk reports issued by IIFM, SME reports issued by international organisations (e.g.,

World Bank), and journal articles were analysed.

This study extends the application of a qualitative field interview approach to this emerging literature on SME financing. Conducting multiple semi-structured interviews ensures the validity and reliability of empirical data on which the suggested financing framework is built. The interviews largely reflect the practical reality not just the authors' personal reflections. Data analysis was conducted manually to properly reflect the interviewees' opinions and understanding. To do so, a single interview guideline was used but the way followed for the questions' presentation differed among interviewees based on their different positional roles in the Şukūk and SME fields. This guideline has covered three overarching themes/clusters. The first investigates the possibility of employing Şukūk in the SME field and examines why Şukūk can be applicable to SME financing. The second explores the opportunities of Şukūk in financing SMEs and attempts to unlock the full potential of Şukūk in the SME sector. The third addresses the enabling environment, such as success factors and challenges. This thematic method used here for data analysis (and for data coding) has categorised the relevant interviews into themes and sub-themes and demonstrated interrelated implications on the processes within the proposed SME financing framework. This also helps to better understand the reasons and techniques of the institutionalisation of SME Şukūk.

4. Empirical Findings

This section analyses the empirical findings with respect to exploring why and how Şukūk can be institutionalised as an innovative source for SME financing. This is presented in two subsections. The first introduces the reasons behind the applicability of Şukūk in the SME

field. The second investigates how to activate the full potential of Şukūk for SME financing.

4.1. Applicability of Şukūk for SME Financing

Şukūk is applicable as a powerful tool and innovative technique for SME financing. This argument has gained theoretical and practical support. From the theoretical perspective, Şukūk was developed initially as a Sharī'ah-compliant alternative to conventional bonds. But Şukūk is characterised by unique defining features that enable it to perform more comprehensive functions, cover broader areas, and fulfil more financing needs, including SME financing. Positioned between stocks and bonds, Şukūk can establish contractual relationships such as lessor-lessee, buyer-seller, and profit-loss-sharing, under which issuers share earnings with holders (Hossain et al., 2021). The wide variety of Şukūk's types and modes allows Şukūk to be tailored to fit entrepreneurs' financing needs. In this way, a carefully-designed framework for SME Şukūk will undoubtedly enhance the contributions of Şukūk to the SME field. Another advantage is that Şukūk may involve debt finance that can be converted to equity on maturity, rather than the investors having their funding reimbursed. This feature could be useful in public-private partnerships.

From the practical point of view, IIFM (2020) reported that Şukūk has already commenced serving SMEs. This technical report did not explain how Şukūk participates in SME financing. Interviews and accurate observation revealed that the current participation of Şukūk across the SME sector is limited to funding medium-scale enterprises that meet the requirements of issuing corporate Şukūk. Smaller businesses, including micro, small or ineligible medium-sized enterprises, have not yet received financing from Şukūk. The report also demonstrated the current situation of

various types of Şukūk on a sectoral basis, revealing that sovereigns have the highest issuance size and growth level, followed by blue-chip corporates (i.e., well-established large companies) and infrastructure projects. The SME sector is underserved, with the lowest issuance size and development level among all sectors. Apart from eligible medium-scale enterprises, SMEs cannot be funded directly by the currently-issued Şukūk. This can partially be justified by the lack of financing frameworks and operating models of SME Şukūk.

Additionally, the traditional operating models of Şukūk can help support the SME sector in two ways: direct and indirect channels. Through the direct channel, eligible medium-sized businesses meeting the issuance prerequisites can receive funding through corporate Şukūk, which is issued directly through a special purpose vehicle (SPV). The indirect channel utilises the infrastructure Şukūk for enhancing the SME sector. For instance, Şukūk can create an SME favourable environment by funding infrastructure projects, such as SME industrial cities, road networks, access to electricity, and communication facilities. By removing such difficulties, SMEs can benefit from external economies and positive externalities, resulting in reduced costs. It is highly recommended to operate these direct and indirect channels alongside other models proposed in the current study. Other theoretical possibilities for Şukūk in the SME sector (as presented later) include SME pooling, digital SME Şukūk, and charitable Şukūk, which are explored to unlock the full potential of Şukūk for SMEs.

4.2. The Prospects of Şukūk in SME Financing

As shown above, Şukūk can perform a significant financing role in the SME sector. To demonstrate this, a financing framework of SME Şukūk is proposed in accordance with the categorisation of Islamic financial transactions.

Islamic jurisprudence (i.e., Fiqh) classifies contracts and formulas into three key categories: ‘Uqud Al-Tabarru‘āt (i.e., contracts of gifts), ‘Uqud Al-Mu‘āwaḍāt (i.e., commutative contracts), and ‘Uqud Al-Mushārahāt (i.e., partnership-based contracts). Tabarru‘āt comprises contracts of donation that represent unilateral agreements with no counter-consideration. Such contracts involve offering money or property to someone else (a grantee who receives the gift or donation) for the sake of Allah as an expression of benevolence and kindness. Examples of Tabarru‘āt include Zakāh (a mandatory charitable contribution offered by the rich to the poor and needy), Şadaqah (voluntary charity), Waqf (endowment), Hibah (gift), Wasiyyah (bequest), Manihah (a temporary loan for an asset), and Qarḍ Hassan (benevolent loan). Mu‘āwaḍāt encompasses commutative or bilateral contracts that contain an exchange of two counter-considerations or values. The sale contract (Al-Bay‘) is the classic example of Mu‘āwaḍāt because the purchaser pays money (as the first consideration) to the seller in exchange for a commodity (as the counter consideration). Other examples of Mu‘āwaḍāt include Murābahah (cost-plus contract), Ijārah (leasing), Salam (sale with deferred delivery), and Istisna‘ (manufacturing to order). Mushārahāt includes partnerships conducted under profit-loss-sharing agreements. Examples of Mushārahāt are Muḍārabah, Mushārahah, Muzārah (share-cropping partnership), and Mushārahah Mutanāqisah (diminishing partnership).

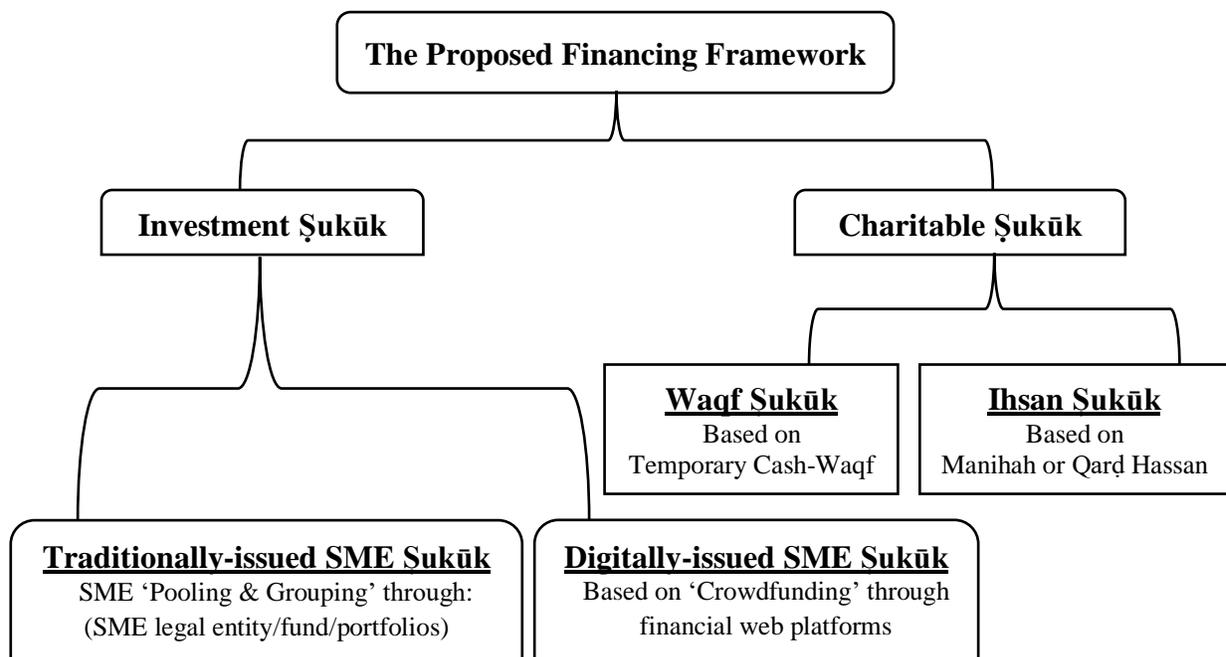
When Şukūk is structured according to commutative contracts (Mu‘āwaḍāt) or partnerships (Mushārahāt), it is recognised as investment Şukūk, such as Murābahah Şukūk, Ijārah Şukūk, Istisna‘ Şukūk, Salam Şukūk, Mushārahah Şukūk, Muḍārabah Şukūk,

Muzāra‘ah Şukūk, Musāqah Şukūk, and diminishing Mushārahah Şukūk. Conversely, when Şukūk is issued under contracts of gifts (Tabarru‘āt), it is considered charitable Şukūk, such as Waqf Şukūk and Qarđ Hassan Şukūk. Based on this, Investment Şukūk is a Sharī‘ah-compliant investment instrument issued for profit purposes, while Charitable Şukūk is a Sharī‘ah-compliant financing tool issued for non-profit-making purposes. Accordingly, this study developed a definition of Şukūk in its broad sense as certificates of equal value issued under Islamic financial contracts and formulas, aiming at mobilising funds in order to be allocated for either profit-oriented purposes as Investment Şukūk or non-profit objectives as Charitable Şukūk.

The empirically-informed multidimensional proposed financing framework comprises both investment Şukūk and charitable Şukūk. Investment Şukūk comes in two models: a traditional model based on SME pooling/grouping scenarios and a digital model based on crowdfunding through financial web

platforms. Charitable Şukūk is designed under two options: Waqf Şukūk, which is issued according to temporary cash-Waqf, and Ihsān Şukūk, which is issued under Qarđ Hassan or Manihah. Both traditional and digital models can be used to issue charitable Şukūk. However, the traditional model requires further procedures, longer time, more effort, higher costs, and extra parties involved in the securitisation process (i.e., Taşķik), compared to the digital model. To increase the effectiveness of the traditional model, some of these issues ought to be addressed through the enabling environment. For example, if we can pool more businesses, each project will incur lower costs of issuance. The traditional model tends to be a top-down model, starting from the SME body or financial institution and ending with SMEs. In contrast, the digital model is more flexible and depends mainly on SMEs whose owners can use digitalisation-based techniques to market and promote the feasibility and profitability of their businesses.

Figure 1: Empirically-informed dimensions of the proposed framework



Note: Figure 1 illustrates the various components of the Şukūk-based financing framework for SMEs. This framework utilises both investment Şukūk and Charitable Şukūk. SME Şukūk can be issued through traditional means by pooling SMEs, or digitally through crowdfunding platforms. Charitable Şukūk can be issued through either Waqf Şukūk or Ihsān Şukūk.

Source: Authors' Own

4.2.1. A Traditionally-issued SME Şukūk Model

The traditional Şukūk model is structured around a series of ordinary procedures including subscription, receipt of the value of Şukūk, and allocation of funds for specific purposes. In this model, the rule of thumb is that larger businesses are better suited for Şukūk issuance, whereas SMEs lack the capacity to issue corporate Şukūk directly. To address this issue, a special protocol is necessary to empower the "pooling and grouping" of select small-scale enterprises under a giant investment umbrella. This process can be conducted by a technical government entity or a specialised financial institution. The general structure of traditionally-issued SME Şukūk, accordingly, comprises three basic stages: pooling/grouping, raising funds, and allocating funds. The first stage involves establishing an SME pool by bringing together a group of SMEs according to pre-determined criteria. Several possible scenarios for pooling include an SME legal entity, pooled issuance, SME fund, and SME portfolios. Pooled SMEs can be named explicitly in the Şukūk prospectus, and the share of each firm in the subscription proceeds should be determined. Alternatively, Şukūk can generally target SME funding by stating in the offering memorandum that the purpose for which Şukūk is issued is to fund SMEs. In this case, Şukūk can fund SMEs on a sectoral basis, such as SMEs in the manufacturing sector.

When it comes to raising funds, Muđārabah Şukūk and Wakālah Şukūk are the two primary types to consider. Unrestricted Muđārabah,

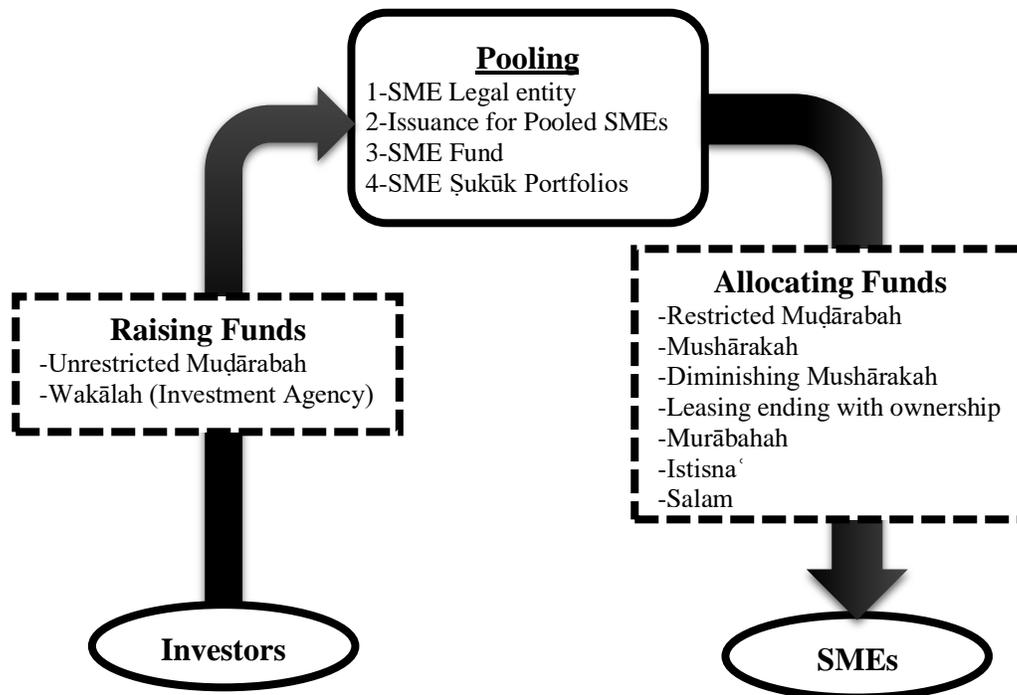
which works as a one-tier model, and Wakālah, which operates as an investment agency, are the best financing options. Muđārabah is a partnership-based contract where the capital provider (Rabb-ul-Māl) offers funds, and the manager (Muđārib) manages the business by providing time, effort, skill, and labour. The profits are then distributed between the two parties according to a pre-agreed ratio. Muđārabah is divided into unrestricted and restricted types, with the former allowing Muđārib to invest funds freely and flexibly without any restrictions, while the latter imposes constraints on time, place, activity, investment mechanism, or other stipulations imposed by capital providers. Unrestricted Muđārabah allows the manager to choose how and where to invest Şukūk's proceeds, thereby diversifying investments with the potential for higher returns. In contrast, restricted Muđārabah restricts the agreement to the feasibility study and agreed-upon activities when financing SMEs, thereby increasing the effectiveness of risk management by facilitating how to prove that Muđārib is a guarantor in cases of negligence or trespass. On the other hand, Wakālah is an agency-based contract in which investors authorise an agent or manager (Wakil) to manage funds in return for a fixed fee. Under Wakālah, Wakil is authorised to invest Şukūk's funds on behalf of Şukūk holders. The main difference between the two structures is that the manager in Muđārabah Şukūk earns a pre-agreed share in profits, while the manager in Wakālah Şukūk receives a pre-agreed fixed fee.

In the third stage, the Şukūk proceeds are allocated to fund specific SMEs through

Islamic formulas, including restricted Muḍārabah, Mushārahah, diminishing Mushārahah, Ijārah ending with ownership, Istisna', Salam, and others. The types of

financing utilised are determined by the distinct requirements of the SMEs seeking financial assistance.

Figure 2: Basic stages of the traditional model for SME Şukūk



Note: Figure 2 explains the process of issuing SME Şukūk traditionally. The primary stage involves SME pooling and can be done through four different methods: legal entity, pooled issuance, fund, or portfolios. The next stage is to raise funds, which can be accomplished using Unrestricted Muḍārabah or Wakālah. The third stage involves allocating the funds under an Islamic contract, such as Restricted Muḍārabah or Murābahah.

Source: Authors' Own

There are four distinct but interrelated scenarios to implement traditional SME Şukūk, including establishing a specialised SME legal entity, issuing Şukūk directly for pooled SMEs, setting up an SME fund, and creating SME Şukūk portfolios. Each economy can choose to fully or partially adopt these scenarios based on their circumstances, providing flexibility and diverse opportunities for adoption. These scenarios can preferably be implemented on a domestic level

under national programmes and on an international level in OIC countries. The Islamic Corporation for the Development of the Private Sector (ICD), a member of the Islamic Development Bank (IDB) Group, is well-positioned to initiate Şukūk schemes, or guarantee and sponsor issuances for prioritised sectors in OIC countries, such as the high-tech industry and information technology.

The first scenario implies instituting a specialised SME legal entity dedicated to SME financing. This entity, which can take the form of a company, financial institution, bank, or government body, is authorised to issue Şukūk directly or through a special purpose vehicle (SPV). To ensure the effectiveness of this scenario, the SME entity must have highly qualified staff and experience in managing risks and handling challenges associated with SME financing. Issuing Şukūk allows the SME entity to raise funds from a wide range of investors, including individuals and institutions, with the proceeds allocated to eligible SMEs. Şukūk can also facilitate the transfer of funds from banks and financial institutions to the SME entity. In some cases, Şukūk issuances may be fully covered through a private placement with pre-selected investors, as was seen in the Egyptian experience of corporate Şukūk (2020/2021). Contact Credit (Contact Financial Holding) S.A.E was the largest issuer of corporate Şukūk (with a total value of 5 billion Egyptian Pounds), distributed into two issuances based on Muḍārabah Şukūk, and the proceeds of the subscription were allocated to fund the purchase of cars. Similarly, specialised financial bodies can employ Şukūk to transfer funds from banks and other institutions to be allocated in their activities. The example of the Egyptian corporate Şukūk of Contact Financial Holding is a typical example of how to mobilise funds through Şukūk under a one-tier Muḍārabah model. However, the uses of funds have not been thoroughly following Sharī'ah. Adherence to Sharī'ah rules and principles is crucial in both the sources and uses of funds. This can be implemented by adopting a two-tier Muḍārabah model (i.e., unrestricted Muḍārabah to mobilise funds and restricted Muḍārabah to use funds) or one-tier Muḍārabah model (i.e., unrestricted Muḍārabah to attract funds and other authentic Islamic financing modes to use

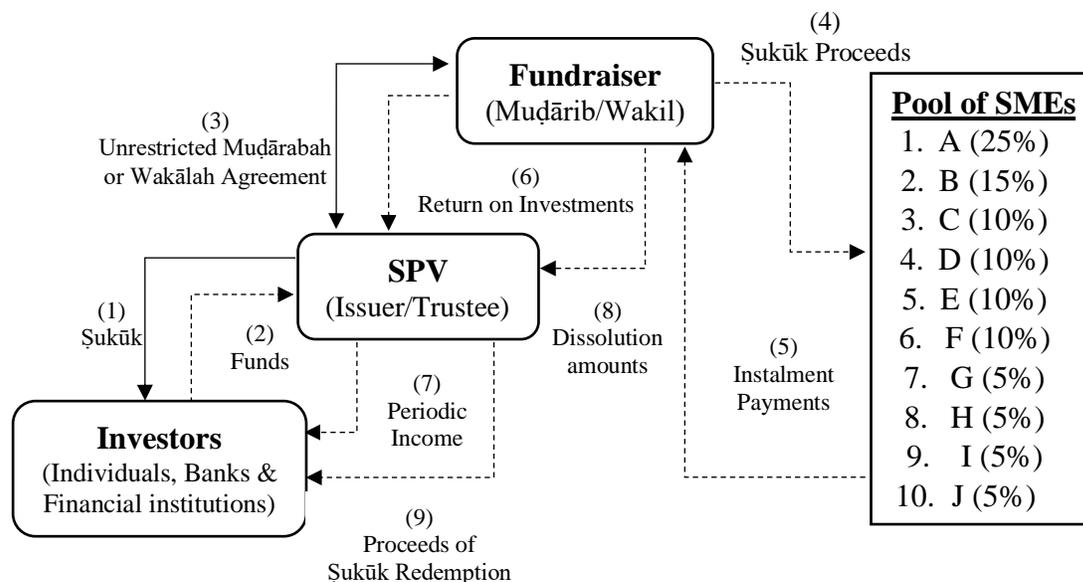
funds). The Egyptian Micro, Small & Medium Enterprises Development Agency (MSMEDA), which is dedicated to financing SMEs, is an example of a specialised entity that can issue Şukūk to mobilise funds for SME financing. In addition to existing instruments for SME financing, Şukūk can play a significant role in fundraising from individuals and financial institutions to enhance the efficiency of specialised SME entities such as MSMEDA.

Under the second scenario, Şukūk would be issued directly to finance certain pooled SMEs. Şukūk can effectively accumulate cash surpluses from banks and individuals for SME financing. The issuer of the SME Şukūk, whether it is an SME legal body or a financial institution, selects a number of small enterprises based on specific criteria. The requirements for the SMEs to receive funding are disclosed in every Şukūk issuance. This scenario can be implemented under the current regulations of Şukūk via financial institutions for social or profit purposes. In Egypt, for example, the minimum required amount for the issuance is 50 million Egyptian pounds. Assuming that 5 businesses meet the financing requirements with an average of 10 million pounds per project or 10 projects with an average of 5 million pounds per project, the prospectus will provide information about these projects and their share of the subscription proceeds. The proceeds will be distributed based on pre-determined shares using Islamic financial formulas. The structure of this scenario is built on either unrestricted Muḍārabah as a one-tier Muḍārabah model or Wakālah, which are the most efficient structures for pooled businesses. The contractual relationship between the fundraiser and SMEs can be structured under a single financial mode or multiple financing modes such as Murābahah, diminishing Mushārahah, Istisna', Ijārah ending with

ownership, and restricted Muḍārabah. The relative weight of each project in the pool of SMEs is determined according to its financing needs in view of other economic factors and selection criteria (as discussed later), along with

the risks involved, including systematic and unsystematic risks. As an illustration, if firm (A) needs 25 million of a total issuance of 100 million, then its weight is 25% of the issuance volume.

Figure 3: Basic structure for Şukūk of pooled SMEs



Note: Figure 3 illustrates how Şukūk can be structured for pooled SMEs. The fundraiser, acting as Muḍārib or Wakil, issues Şukūk through an SPV based on an Unrestricted Muḍārabah or Wakālah agreement. The proceeds of Şukūk are allocated for a pool of SMEs according to their financing needs. The fundraiser can use instalment payments to pay periodic returns and dissolution amounts on the redemption date. The instalment payments can be managed by either the fundraiser or the SPV to pay periodic returns to the investors, with a portion retained for redemption proceeds. It is important to note that instalment payments are divided into two parts: the first is used to pay periodic returns, and the second is retained to cover the proceeds of Şukūk redemption.

Source: Authors' Own

In the third scenario, an "SME Şukūk fund" is proposed to act as an investment vehicle that mobilises funds through Şukūk for SME financing. This SME fund would issue Şukūk to raise financial resources to provide sufficient financing opportunities for SMEs. The SME Şukūk fund would serve as a sustainable tool for SME financing, with successive Şukūk issuances providing renewable funding prospects. The management of the SME fund would be entrusted to competent and independent entities, including qualified

managers and/or financial institutions with specialised SME departments.

The fourth scenario involves the creation of "SME Şukūk Portfolios", which are carefully designed to support SMEs in various sectors. These portfolios would include, among others, high-tech, IT, agriculture, and manufacturing schemes. Each portfolio would comprise a series of Şukūk issued at set intervals over a period ranging from five to ten years, with potential issuances every three, four, or six months for three years. The redemption period

for Şukūk would span from five to seven years. Financial institutions, including banks, that have experience in SME financing would manage these portfolios. Additionally, governmental SME bodies could serve as managers, guarantors, or sponsors of Şukūk issuances, which would help promote credit ratings and marketing of SME portfolios.

To effectively implement traditional SME Şukūk, certain enabling factors should be regarded. First and foremost, official government support through SME programmes and initiatives ought to be provided. Operating SME Şukūk under well-developed national or international schemes (e.g., Kafālah Programme in Saudi Arabia) is expected to stimulate SMEs in economic and social priority sectors. Despite the possibility of issuing traditional SME Şukūk without governmental plans, the importance of government supervision and sponsorship in increasing the chances of success cannot be ignored. According to the World Bank (2017), government support is crucial because the formal financial sector tends to underserve or ignore the SME sector. Therefore, the coordination of governments with major players in the financial sector is important in inaugurating initiatives and programmes. Additionally, SME initiatives encourage the financial sector to enhance SMEs, which is often overlooked in favour of large corporations. Governments establish SME programmes to encourage economic growth and employment, recognising the vital economic role of SMEs. These programmes should prioritise funding for projects with a significantly positive impact on economic development, targeting specific economic sectors and enterprises based on carefully-defined criteria. SME financing needs should also be accurately defined and classified, whether for starting a new firm, developing

existing production lines, upgrading operations, and so on. This is essential in determining the optimal scenario under which Şukūk can be structured.

The World Bank (2017) indicated that specific economic sectors and segments of SMEs should be targeted depending on economic considerations. These firms can be referred to as high-growth SMEs, transformational SMEs, or gazelles. High-growth SMEs can be identified based on their contribution to GDP, employment size, high-tech industry, entrepreneurship, and other factors. The determination may also depend on the state's need to support a particular economic sector, such as agricultural, manufacturing, or IT sectors. A "targeting policy" is recommended through financing interventions by governments and concerned parties based on the segmentation of SMEs and prioritisation of SME financing needs. Under a well-established macroeconomic programme, a two-level SME analysis is required: segmentation of SMEs and examining the financing needs of different types of SMEs. In Egypt, for example, this analysis requires the cooperation of several official bodies such as the Financial Regulatory Authority (FRA), the Central Bank of Egypt, the Ministry of Finance, and the Ministry of Planning and Economic Development. A careful study of markets and SME financing needs within an economic sector, or even a city/governorate, is expected to allow the most efficient enterprises to survive and grow, pushing the economy towards higher levels of productivity. According to IFC (2017b), the manufacturing sector is the most attractive to be funded in some OIC countries (e.g., Egypt, Saudi Arabia, Pakistan, and Yemen) because of its capital intensity, high degree of value-added, significant export potential, and capacity to employ labour. Countries experiencing high

levels of unemployment (e.g., Pakistan and Yemen) can fund the manufacturing sector to ensure inclusive growth and decrease the unemployment rate. The trade sector (wholesale and retail commerce) is also a viable alternative to be funded, but its value-added to the economy, size of employees, and operational scope of establishments are smaller than that of manufacturing.

Another important point is that target SMEs probably cannot demand funds supplied by SME *Ṣukūk* despite the urgent need and willingness. To be eligible for financing, SMEs must adhere to guidelines and follow instructions of financial markets. A brochure should be carefully formulated to explain the conditions and requirements that SMEs must fulfil to access *Ṣukūk* funds. For instance, SMEs must submit a feasibility study that has been approved by an independent financial advisor or a technical entity licensed by the responsible authorities in the financial sector (e.g., FRA in Egypt). To ensure that SMEs meet the essentials for accessing *Ṣukūk* finance, it is highly recommended to empower specialised technical bodies equipped with experts in law, accounting, and other relevant SME issues. These bodies can provide documentary and procedural support (e.g., financial statements, legal forms, tax documents, etc.). Selection criteria for SMEs to be funded, accordingly, encompass the following: inclusion within priority economic sectors, integration in the formal economy, adherence to *Ṣukūk* scheme instructions, submission of certified financial statements and business records, a well-prepared feasibility study by a specialised technical body, consideration of expected cash flows and future profits, and the ability to access finance in the long run based on the ethical commitment between financiers and SME owners.

The traditional model for SME *Ṣukūk* faces some challenges that must be addressed to ensure its soundness and efficiency. Among these challenges is the need to develop a robust marketing plan that involves obtaining an acceptable credit rating from an accredited agency such as the FRA in Egypt. Additionally, professional supervision is necessary throughout the entire process, from issuance to dissolution, to ensure that funds are used for their intended purposes and to prevent moral hazards (e.g., employing funds for plans other than those intended). It is worth noting that some SMEs deposited funds received under the 2016 Central Bank of Egypt's initiative in other banks to earn higher interest rates.

On top of these challenges are Sharī'ah issues that should be addressed carefully according to the authentic Islamic vision and principles. The adoption of Sharī'ah supervision throughout the life of SME *Ṣukūk* increases the confidence in *Ṣukūk* as Sharī'ah-compliant securities. One of the most serious issues is the wrong practice of guaranteeing face value and returns, which is not in line with the Sharī'ah rule of profit-loss-sharing. However, *Ṣukūk* can be guaranteed as a pure donation by a third independent party, such as a governmental entity within the SME programme or initiative. SME *Ṣukūk* issuances should also be fully covered by Takāful insurance to protect investors' funds. A *Ṣukūk* Takāful Fund (STF) can be established to face any unexpected losses in investment activities. Another Sharī'ah issue is the tradability of *Ṣukūk*, which facilitates the marketing and attracts investors who may liquidate *Ṣukūk* before redemption. This issue should be handled by following the principle of "predominance and dependency" (Ghalabah wa Taba'iyah) in Islamic financial transactions. Based on this, debt-based *Ṣukūk* (Murābahah, Salam, and Istisna') should be less than or equal to 49% of investments, while asset-based *Ṣukūk*

(Muḍārabah, Mushārahah, Wakālah, Ijārah, etc.) should be greater than or equal to 51% of the employment of funds received. The International Islamic Fiqh Academy authorised this principle and practices built upon it by resolution No. 226 (10/23) in its 23rd session (October 28-November 1, 2018). The application of this rule can be exemplified by three issuances according to the structure of Şukūk as stated in the issuance prospectuses and offering memorandums. Indonesian government sovereign global Şukūk in US dollars issued through Perusahaan Penerbit SBSN Indonesia III (PPSI-III) in 2019 was structured as 49% Istisna' and 51% Ijārah. Dubai Aerospace Enterprise (DAE) Ltd Şukūk programme in 2020 was structured as 49% Murābahah and 51% Wakālah. Saudi Telecom (STC) Şukūk in 2019 was issued as 49% Murābahah and 51% restricted Muḍārabah.

4.2.2. A Digitally-issued SME Şukūk Model

The suggested model for digital SME Şukūk is grounded in the mechanisms of crowdfunding. Crowdfunding was originally developed as a collaborative financing tool, which allows for the mobilisation of funds from a large audience in small amounts through online platforms. Unlike traditional financing methods that typically rely on external funding from a limited number of investors, such as banks, financial institutions, venture capitalists, and business angels, crowdfunding-based techniques target as many potential funders as possible. Online crowdfunding platforms provide access to virtually unlimited potential funders, making it cost-effective for SMEs to raise funds, particularly given their growing popularity among businesses and investors worldwide (OECD, 2015). In many countries, including those in the Organisation of Islamic Cooperation (OIC), emerging crowdfunding platforms can provide alternative solutions for

funding SMEs, including Islamic financial instruments. These platforms establish mutual trust and a network of relationships between entrepreneurs and investors, which is critical for the effective adoption of some Islamic financial contracts, according to Abdelrahman (2016).

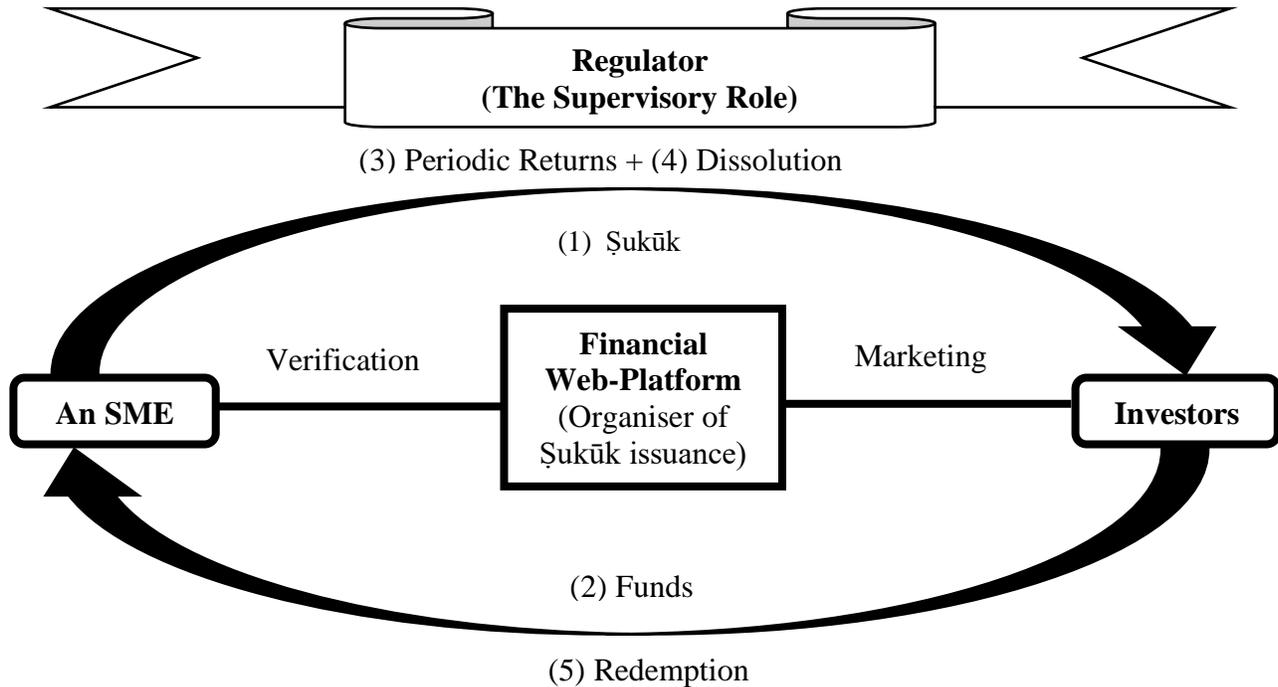
The suitability of traditional Şukūk for large companies and corporations has been well-established, but the emergence of digitally-issued Şukūk through online platforms presents a promising opportunity for SMEs. The integration of financial technology (FINTECH) and digitalisation in the Şukūk issuance process has the potential to streamline procedures, reduce costs, and increase accessibility. FINTECH can play a significant role in facilitating crowdfunding-based Şukūk by providing online platforms and tools that enable investors to participate in the issuance process. These platforms can enhance transparency and reduce information asymmetry by allowing investors to view and evaluate investment opportunities, conduct due diligence, and make investments online. Moreover, FINTECH can offer innovative solutions for managing the Şukūk issuance process, such as smart contracts and blockchain technology, which can further enhance efficiency and reduce costs. Additionally, FINTECH can provide data analytics and risk management tools to help investors assess the risk and return profile of different Şukūk investments, thereby increasing investor confidence in the market and attracting more participants (Hasan et al., 2020).

Presently, prevalent crowdfunding transactions are typically categorised as donation, lending, and equity. Donors could contribute funds towards charitable causes and non-profit entities. Investors can also provide interest-based loans or participate in the ownership of businesses (OECD, 2015). These transaction classifications, namely equity-based, debt-

based, and donation-based financing, have the potential to be converted into legally-authorised digital securities by crowdfunding platforms. Furthermore, it is advisable to incorporate Şukūk within these platforms as a novel instrument that represents transient ownership, akin to temporary equity, in assets or projects until the ultimate redemption.

The digital issuance of SME Şukūk involves the active participation of four key stakeholders, namely the regulator, SMEs, investors, and online platforms. Each of these entities has a distinct role to play in the issuance process. It is essential that online platforms are established under the official supervision and control of responsible supervisory bodies, such as financial regulatory authorities and central banks. The regulator undertakes a critical role in ensuring that digital Şukūk issuances are compliant with Sharī'ah principles and regulations. This supervisory function encompasses approving the structure of Şukūk, verifying the authenticity of underlying assets, and monitoring the issuance process to ensure transparency and security. The regulator may also set guidelines for disclosure requirements, investor protection, and dispute resolution mechanisms. Thus, the regulator's primary responsibility is to uphold the integrity and credibility of the Şukūk market while simultaneously fostering innovation and growth.

The SME presents an investment proposal to potential funders through an authorised financial web platform that issues and manages SME Şukūk. To participate, SME owners and entrepreneurs must establish a profile on the online platform and submit documentation for verification purposes, including proof of identity, properties, and assets of projects. Subsequently, SME owners are permitted to provide detailed feasibility studies, which encompass technical, financial, and marketing studies. The operating organisation of the platform is responsible for ensuring the seriousness of entrepreneurs and SME owners through feasibility study and verification procedures, in addition to serving as an organiser of Şukūk issuance. Through the platform, SME owners can mobilise funds by persuading investors to offer temporary equity-based funds. In this context, SME owners can target acquaintances, relatives, and friends using social media. Each investor pledges a relatively small proportion up to a maximum of 10% of the total amount demanded. Digital Şukūk issuances require participation from at least ten investors (10% for each investor). This procedure reduces the likelihood of deceiving investors because greater than or equal to ten funders must be convinced, which is difficult to be achieved except under relatively promising projects with economically viable feasibility studies.

Figure 4: The basic structure of the digital Şukūk model

Note: Figure 4 shows the fundamental structure of digitally-issued SME Şukūk. Financial web platforms serve as Şukūk organisers. After the verification, SMEs can use the crowdfunding platform to issue digital Şukūk. The issuance of digital Şukūk primarily relies on effective marketing strategies to persuade the target audience to invest in relevant businesses. SMEs are obligated to provide periodic returns in addition to the dissolution amount on the redemption date. This model should be executed under the supervision of the regulator.

Source: Authors' Own

To ensure effective digital SME Şukūk operations, certain enabling factors should be considered. Primarily, a carefully-designed regulatory environment ought to be developed to legitimise and legalise crowdfunding platforms' procedures and processes, enabling them to issue digital securities in financial markets. Moreover, the minimum requirement for issuing Şukūk via online platforms should be adjusted to suit the SME sector. For example, if the minimum amount of issuing traditional corporate Şukūk in Egypt is 50 million Egyptian pounds, a minimum of 5 million Egyptian pounds could be deemed appropriate for digital SME Şukūk.

Furthermore, the legislative environment should be designed properly to make procedures simpler, more manageable, less complex, and more attractive for investors and SMEs. Digital transformation, including reliable internet connectivity, is crucial to digitise all stages of SME Şukūk. An effective banking system also provides infrastructure for payments via entrepreneurs' and investors' bank accounts. Financial platforms may require a good credit history to accept certain projects for funding. However, some challenges exist for the digital Şukūk model, including inadequate customer awareness about platform-based finance. Another challenge is insufficient financial inclusion due to a lack of confidence in online

payment systems and a slow transition to a cashless society.

4.2.3. An SME Charitable Şukūk Scheme

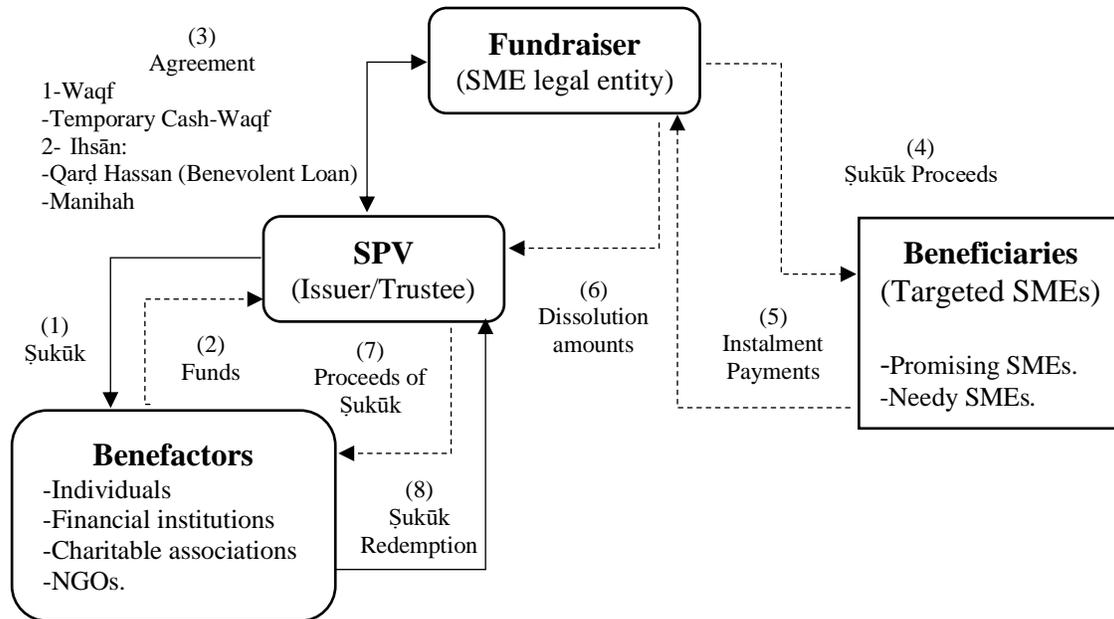
The accessibility of commercial finance, including SME Şukūk schemes, may pose a challenge for potential entrepreneurs and SME owners. Therefore, there is an urgent need for a charitable financing system that involves Waqf-based Şukūk. Charitable Şukūk is significant for community development, as it enables entrepreneurs and SMEs to access finance at affordable costs, serving as a tool for redistribution policy in any economy. Although most literature restricts Şukūk to profit-oriented investment Şukūk, charitable Şukūk can also play a complementary and supportive role in the SME field. Charitable Şukūk can be issued for socially-responsible purposes under Islamic charitable formulas, with Waqf and Ihsān being the key modes under which this kind of Şukūk may be structured. Waqf is a specific form of charity that involves the endowment of a thing, such as an asset or property, to be utilised for a specified charitable purpose. The Māliki school of thought permits temporary Waqf, where a certain period can be defined for Waqf, and at its end, the thing given in Waqf returns to the Wāqif (dedicator). Besides, cash-Waqf is an important sort of endowment permitted by resolution No. (140-15/6) of the Islamic Fiqh Academy in 2004. Accordingly, the appropriate formula under which Waqf Şukūk can be developed is “temporary cash-Waqf” (Oubdi & Raghibi, 2018).

The development of Ihsān Şukūk is rooted in the concept of Qarḍ Hassan, which refers to a benevolent loan, and Manihah, which can be

defined in the contemporary context of Islamic finance as a temporary loan or grant of usufruct of productive assets. The classic example of Manihah is presenting a cow to produce milk and benefit a needy person. Various narrations of the Ḥadīths of Prophet Muhammad (peace and blessings of Allah be upon him) reveal that Manihah comes in many forms, including Manihah of goat, sheep, cow, or she-camel for milk production, Manihah of an animal for riding purposes, Manihah of a palm tree for date-palm production, and Manihah of gold and silver, which were considered currencies during that era. Thus, Manihah is regarded as Qarḍ Hassan for productive assets, while Qarḍ Hassan is viewed as Manihah for money and financial assets. Both Qarḍ Hassan and Manihah are encouraged by the Holy Qur’ān: {Who is he that offer to Allah a goodly loan? For Allah will multiply it for him, and he shall receive a generous reward} [Al-Ḥadid: 11]. The proceeds generated from Ihsān Şukūk can either be offered as cash or renewable productive assets to SMEs in a specific economic sector. For instance, agricultural machinery can be provided for ploughing and watering farmland and trees.

The fundamental structure of charitable SME Şukūk can be designed through either a traditional or a digital model, with the latter involving donation-based financing through online platforms. The proposed structure of charitable Şukūk for SMEs allows for considerable adaptability in the allocation of funds based on the financing deficiencies of the most deserving and/or viable projects, as determined by economic considerations.

Figure 5: Structure of Charitable Şukūk



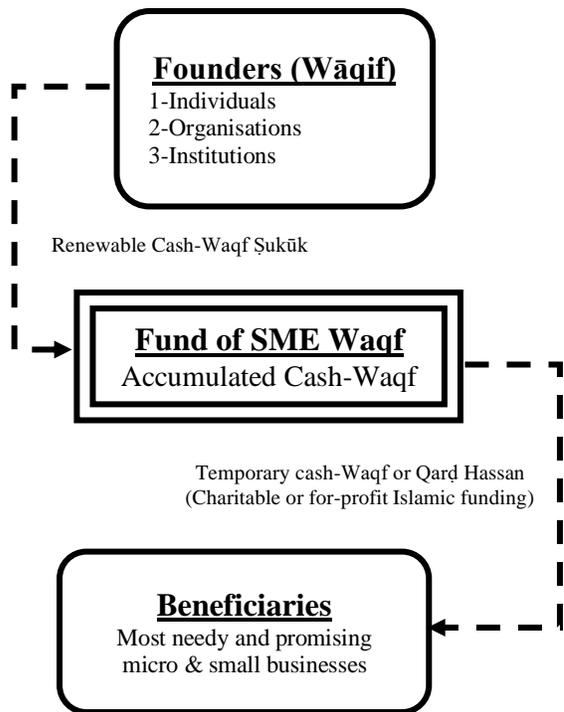
Note: Figure 5 demonstrates the basic structure of charity-based Şukūk. The fundraiser can issue Şukūk through an SPV under temporary cash-Waqf or Ihsān (Qarḍ Hassan or Manihah). Benefactors may be individuals, charitable institutions, and financial institutions, including Zakāh funds in Islamic banks. The proceeds generated from the issuance of Şukūk are subsequently allocated to beneficiaries, namely promising and needy SMEs. Dissolution amounts, collected from instalment payments, are repaid on the redemption date.

Source: Authors' Own

Another possible role for charitable Şukūk is the establishment of a fund of SME Waqf using accumulated cash-Waqf. Although Şukūk is temporarily-issued securities with a redemption date, the fund of SME Waqf is intended to be a permanent and sustainable source of finance for SMEs. Renewable periodical cash-Waqf Şukūk

issuances can be employed to support this fund whenever SME financing needs or plans arise. This SME fund would be managed through an independent institution, competent SME legal entity, or qualified manager appointed by concerned authorities.

Figure 6: The structure of SME Waqf funded by Waqf Şukūk



Note: Figure 6 explains the structure of the SME Waqf fund, which is built on accumulated cash-Waqf. Funds are mobilised from founders (Wāqif) depending on renewable cash-Waqf Şukūk. Proceeds are allocated to SMEs through charitable and/or for-profit funding according to SME financing needs.

Source: Authors’ Own

Regarding the allocation of charitable Şukūk proceeds, there are two ways in which funds can be utilised to finance SMEs. Firstly, a benevolent loan can be provided under Qard Hassan or temporary cash-Waqf to fund target SMEs based on their specific financing needs, such as machinery, fixed capital, inputs of production, or debts. These benevolent loans are typically interest-free and expected to be repaid in instalments within specific periods. Secondly, profit-loss-sharing (PLS) financing can be implemented under profit-oriented contracts such as Muḍārabah, Mushārahah, Istisna‘, Salam, Murābahah, and Ijārah. Eligible SMEs can benefit from PLS financing, with any profits gained being used to cover the costs of

Şukūk issuance and any administrative expenses.

5. Discussion and Conclusion

This study seeks to investigate the prospects of Şukūk in the SME sector as an additional financing tool. To do so, the overarching research question centres on exploring why and how Şukūk can be institutionalised as an effective financing instrument in the SME field. To ensure deeper analysis and a better understanding of the purported role(s) of employing Şukūk as a new source of finance for SMEs, this main question has been split into two distinct but interrelated sub-questions. The first revolves around the applicability of Şukūk as an SME financing tool, and the second

focuses on how SME Şukūk should practically be functionalised and operationalised. Contributing to the previous literature, the current study reveals the potential role of Şukūk in financing SMEs. As analysed above, the present findings demonstrate that Şukūk can effectively play an important role in the SME sector. This is in line with some recent studies, such as Abdelrahman (2019) and IIFM (2020, 2021), which argue for Şukūk as an innovative financing source for SMEs.

However, the present findings are in disagreement with the perspective of a single participant who firmly believes that Şukūk is ineligible for SME funding due to the nature of Şukūk and the credit features of SMEs. This can be argued that although relatively small enterprises cannot issue Şukūk directly under the existing Şukūk schemes, specialised SME entities and financial institutions can issue Şukūk aiming to allocate the proceeds for financing well-select SMEs. Enabling factors such as carefully-designed financing models, well-developed regulations, and targeting policies for prioritised businesses can enhance the role of SME Şukūk. Furthermore, other Şukūk schemes are proposed to increase the opportunities for SME Şukūk, such as the potential schemes of digitally-issued SME Şukūk and charitable SME Şukūk. Additionally, as previously observed, Şukūk has begun to fund SMEs. Still, the current involvement of Şukūk across the SME sector is constrained to funding medium-scale enterprises that satisfy the prerequisites and fulfil the requirements of issuing corporate Şukūk. But Şukūk has not been employed for financing relatively small businesses (i.e., micro, small, or ineligible medium-sized businesses) as shown in IIFM (2020, 2021).

By adding to the previous studies, the present findings add a new dimension to previous and

early analyses in this emerging field. This implies utilising considerable proposals and valuable notes gained throughout interviews to establish a coherent and consistent SME financing framework via Şukūk. This financing framework is not meant to replace the existing SME financing instruments, but rather to complement them and provide additional sources of funding. The study proposes a multi-faceted framework for SME Şukūk, which can be established under traditional or digital models as investment or charitable Şukūk.

This study fuels the previous literature in the emerging field of Şukūk and SME financing with some theoretical addition(s) and empirical insight(s). Theoretically, this study addresses a new context in the literature on Şukūk and SME financing by adding a new SME financing framework using Şukūk. Compared to the literature, this Şukūk-based theoretical framework has proposed multidimensional financing aspects, such as SME pooling/grouping, digitalising Şukūk, and charity-based Şukūk. As a future prospect, this proposed multi-lens framework contributes to the ongoing debate and deliberations on the importance of using Şukūk as an institutional device for SME financing. The practical implications of this study promote knowledge for not only academics but also professionals and policymakers about new possible approaches and instruments in the field of SME financing. Hopefully, this suggested framework (with its diverse models) will be taken into force in the future by relevant policymakers. The application of the proposed financing framework may also be extended across the entire SME field as a sustainable corporate finance model, which enables the broadening of the range of financing instruments available for SMEs.

As a qualitative research study, the above findings have some theoretical and empirical limitations which pave the way for future research proposals. As the institutionalisation process of *Ṣukūk* in financing SMEs is still in its infancy, future research proposals can extend to institutionally analyse the situated nature and the responses to this process within different SMEs. In addition, future research proposals may use a multiple case studies approach to provide comparative insights on the differences between different organisations in relation to

the potential influence of *Ṣukūk* as a financing technique. Furthermore, with the current rarity of using theoretical frameworks in the SMS financing literature, future research endeavours can extend meaningful frameworks (such as institutional theory, institutional logics theory, and institutional work theory) to better understand the practical application(s) of *Ṣukūk* in the SME financing field. This would add new theoretical aspects and empirical insights to our current knowledge.

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إِطَارُ تَمْوِيلِيٍّ مُقْتَرَحٌ لِلشَّرِكَاتِ الصَّغِيرَةِ وَالْمُتَوَسِّطَةِ: اسْتِكْشَافُ حَالَةِ الصُّكُوكِ

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المُسْتَخْلَص. غرضُ هذه الدراسة هو استكشاف الدور المُدْعَى للصُّكُوكِ في قطاع المشروعات الصغيرة والمتوسطة؛ ومِنْ ثَمَّ فإنها تسهم في إثراء أدبيات الصُّكُوكِ وتمويل المشروعات الصغيرة والمتوسطة بفحص "ماذا" و"كيف" يمكن للصُّكُوكِ أن تلعب دورًا تمويليًّا في هذا القطاع؛ أي أنها تستكشف إمكانية وكيفية تبني الصُّكُوكِ بوصفها مصدرًا إضافيًا جديدًا لسد الفجوة التمويلية للمشروعات الصغيرة والمتوسطة. تستخدم الدِّراسة في سبيل تحقيق ذلك "منهجًا نوعيًّا" اعتمادًا على المقابلات شبه المنظَّمة والمواد النَّائِيَّة المنشورة. كَشَفَت النتائج الحالية عن الدور القويِّ المُحْتَمَل للصُّكُوكِ في تمويل المشروعات الصغيرة والمتوسطة ولا سيما في بلدان منظمة التعاون الإسلاميَّة النامية، ووَفقًا لذلك طورت الدراسة إطارًا تمويليًّا متعدد الأوجه والأبعاد بحيث يقوم على نوعين مُتَبَايِنَيْنِ من صُّكُوكِ المشروعات الصغيرة والمتوسطة، هما: الصُّكُوكِ الاستثماريَّة والصُّكُوكِ الخيريَّة. يمكن تأسيس صُّكُوكِ الاستثمار وفق نموذجيِّ أعمال: نموذج تقليديِّ متنوع السيناريوهات، ونموذج رقيِّ مُؤَسَّس على مفهوم التمويل بالحشود، كما يمكن تطوير الصُّكُوكِ الخيريَّة وفق أسلوبين مختلفين للصُّكُوكِ، هما: الوقف والإحسان.

الكلمات الدَّالة: المشروعات الصغيرة والمتوسطة، تمويل المشروعات الصغيرة والمتوسطة، الصُّكُوكِ، إطارُ تمويليِّ، دول منظمة التعاون الإسلاميِّ، إطار تمويليِّ وقيِّ

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