

T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE

**ISLAMIC METHODS OF SHORT-TERM WORKING
CAPITAL FINANCING:
APPLICATIONS ON PALESTINIAN COMPANIES**

Ph.D. DISSERTATION

Zuhier Jamil Rızık Abdel Razzaq

Istanbul

January – 2025

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DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this PhD dissertation titled “**Islamic Methods of Short-Term Working Capital Financing: Applications on Palestinian Companies**” is my own work and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing of Sabahattin Zaim University. I have fully referenced, in both the text and bibliography, all direct and indirect quotations and all sources I have used in this work.

Zuhier Jamil Rızık ABDEL RAZZAQ

January - 2025

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I dedicate this work to the cherished spirits of my dear parents in appreciation and gratitude for their role in my life, who taught me the values of life and perseverance, and illuminated my path with their love and care. May God have mercy on them and grant them the highest levels of Paradise.

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Zuhier Jamil Rızık ABDEL RAZZAQ

ABSTRACT

ISLAMIC METHODS OF SHORT-TERM WORKING CAPITAL FINANCING: APPLICATIONS ON PALESTINIAN COMPANIES

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This study investigates the ability of micro, small, and medium enterprises (MSMEs) to access short-term Islamic banking financing to meet their operating expenses (working capital needs) in effective manure. It analyses key factors, including the efficiency of Islamic banking instruments in meeting short-term financing and working capital needs, as well as the obstacles that limit the ability of enterprises to access this type of financing.

The study also highlights religious commitment and awareness as moderating factors affecting financing decisions. It assesses the influence of these factors on access to finance and the adoption of Islamic financial instruments by financial officers in these enterprises.

The study relies on collecting data from owners and managers of Palestinian MSMEs who have prior experience with Islamic banking financing, in addition to financing officers in Islamic banks, intending to understand the motives and determinants that affect the decision of MSMEs owners or financial managers to adopt Islamic banking instruments to finance working capital needs. A combination of questionnaire and interviews was adopted, and a study was conducted on 240 responses of financial managers and owners of MSMEs who previously engaged in Islamic financing to analyze the data statistically. And the observations of seven financing officers working in Islamic banks in Palestine were also obtained through interviews.

The study found that there are a number of challenges that hinder MSMEs from adopting Islamic banking instruments, as the results showed that the complexity of these instruments, especially multiple contracts, constitutes a major obstacle for enterprises, which limits their efficiency and ease of use. The results also showed that the collateral requirements by Islamic banks are considered impractical for MSMEs.

Furthermore, the study observed that the compliance of financial instruments with Shariah standards, in addition to effective communication and cost effectiveness, are among the primary motivations that encourage enterprises to adopt Islamic financing instruments.

Keywords: Islamic Banking, Working Capital, Shariah Compliance, Shariah Commitments, MSMEs, Short Term Islamic Finance.

ÖZET

KISA VADELİ İŞLETME SERMAYESİ FİNANSMAN İÇİN İSLAMİ YÖNTEMLER FİLİSTİNLİ ŞİRKETLER ÜZERİNE BİR UYGULAMA

Zuhier Jamil Rızık ABDEL RAZZAQ

Doktora Tezi, İslam Ekonomisi ve Finans Anabilim Dalı

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Bu çalışma, mikro, küçük ve orta ölçekli işletmelerin kısa vadeli İslami bankacılık finansmanına etkili bir şekilde erişim yeteneklerini, birçok önemli faktörleri analiz ederek incelemektedir. Bu faktörler arasında, İslami bankacılık araçlarının kısa vadeli finansman ihtiyaçlarını karşılama etkinliği ve işletmelerin kısa vadeli İslami finansmana erişimlerini sınırlayan engeller ile farkındalık ve dindarlığın etkileyici faktörler olarak rolünün ölçülmesi yer almaktadır.

Çalışma, İslami bankacılık finansmanı konusunda önceki deneyimleri olan Filistinli Mikro-KOBİ sahipleri ve yöneticilerinden, ayrıca İslami bankalardaki finansman yetkililerinden veri toplanmasına dayanmaktadır ve işletmelerin çalışma sermayesi ihtiyaçlarını karşılamak için İslami bankacılık araçlarını benimseme kararını etkileyen motivasyonları ve belirleyicileri anlamayı amaçlamaktadır.

Anket ve mülakatların bir kombinasyonu kullanılarak 240 Mikro-KOBİ finansal yöneticisi ve sahibinin yanıtları istatistiksel olarak analiz edilmiştir. Aynı zamanda, Filistin'deki İslami bankalarda çalışan yedi finansman yetkilisinin gözlemleri de mülakatlar yoluyla elde edilmiştir.

Çalışma, Mikro-KOBİ'lerin İslami bankacılık araçlarını benimsemelerini engelleyen bir dizi zorluğun olduğunu ortaya koymuştur. Sonuçlar ise özellikle çoklu sözleşmeleri içeren bu araçların karmaşıklığının, işletmeler için büyük bir engel oluşturduğunu aynı

zamanda bu durumun araçların verimliliğini ve kullanım kolaylığını sınırladığını göstermiştir. İslami bankalar tarafından talep edilen teminat gerekliliklerinin Mikro-KOBİ'ler için pratik olmadığı ortaya konulmuştur.

Sonuçlar, finansal araçların Şeriat standartlarına uygunluğunun yanı sıra etkili iletişim ve maliyet etkinliğinin, işletmeleri İslami finansman araçlarını benimsemeye teşvik eden başlıca motivasyonlar arasında olduğunu göstermiştir.

Anahtar kelimeler: İslami Bankacılık, İşletme Sermayesi, Şeriat Uyumu, Şeriat Taahhütleri, KOBİ'ler, Kısa Vadeli İslami Finans.



TABLE OF CONTENTS

DISSERTATION APPROVAL	i
DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY	ii
ACKNOWLEDGEMENTS.....	iii
ABSTRACT	iv
ÖZET.....	vi
TABLE OF CONTENTS.....	viii
LIST OF TABLES	xiii
LIST OF FIGURES	xv
ABBREVIATIONS	xvi
CHAPTER I	
INTRODUCTION.....	1
1.1 Overview	1
1.2 Importance and Motive of the Study.....	3
1.3 Thesis Statement	4
1.4 Research Problem	4
1.5 Research Aim.....	5
1.6 Main Questions	6
1.7 Research Hypotheses	7
1.7.1 First Main Hypothesis	7
1.7.2 Second Main Hypothesis	8
1.7.3 Third Main Hypothesis.....	9
1.8 Research Objectives	9
1.9 The Values and the Originality	10
1.10 Population	11
1.11 The Scope and Content of the Research	11

1.12 Study Limitations	11
1.13 Research Methodology (General Overview)	12
1.14 Organization and Structure of the Dissertation	12

CHAPTER II

MSMES IN THE PALESTINIAN TERRITORIES 15

2.1 Introduction	15
2.2 MSMEs Definition	15
2.3 MSMEs in Palestine	16
2.4 Palestinian MSMEs Distribution	16
2.5 MSMEs Contributions	18
2.6 Contribution of Small and Medium Enterprises to the Palestinian Economy Compared to Global Figures	19
2.7 Sources of Finance for MSMEs in Palestine	20
2.8 Financial Inclusion and MSMEs	21
2.8.1 Financial Inclusion in Palestine	22
2.8.2 Financing Gap of Palestinian MSMEs	24
2.9 Financial Institutions and (MSMEs) in Palestine	26
2.9.1 The Role of Banks in Financing Palestinian MSMEs	27
2.9.2 Islamic Bank MSMEs in Palestine	28
2.9.3 The Role of Islamic Banks in Financing Palestinian MSMEs	29
2.9.4 Microfinance Solutions for MSME Financing	29
2.9.5 Challenges Encountered by SMEs in Obtaining Bank Financing	31
2.10 National Financial Inclusion Strategy to Enhancing Access to Finance by Palestinian MSMEs to Finance	33
2.11 Chapter Conclusion	34

CHAPTER III

WORKING CAPITAL AND ITS FINANCING METHODS 36

3.1	Introduction.....	36
3.2	Working Capital Management for Continuity and Financial Stability.....	36
3.2.1	Working Capital Management and Cash Shortages:.....	37
3.2.2	Working Capital Management and Business Relationship.....	37
3.2.3	Working Capital Management and Profitability.....	38
3.2.4	Working Capital Management and Risks.....	38
3.2.5	Working Capital Requirements.....	38
3.2.6	The Importance of Working Capital Management.....	39
3.2.7	Managing Working Capital.....	39
3.3	Policies of Working Capital Management.....	40
3.3.1	Investment in Working Capital.....	42
3.3.2	Models for Determining Optimal Levels.....	42
3.3.3	Sources of Working Capital Financing.....	43
3.4	Conventional Banking Methods for Short-Term Working Capital Financing: ..	44
3.5	Working Capital in Islamic Thought.....	45
3.5.1	Impact of Shariah Commitments on Financial Policies and Cash Holdings.....	46
3.5.2	Speed of Adjustment and Shariah Compliant.....	47
3.5.3	Shariah-Commitments and Capital Structure.....	48
3.5.4	Barriers to Utilizing Conventional Financing for Shariah-Compliant Enterprises.....	49
3.6	Alternative Islamic Banking Instruments for Working Capital Financing.....	49
3.7	Conclusion.....	57
CHAPTER IV		
THEORETICAL FRAMEWORK.....		59
4.1	Review and Proposal of Existing Theories.....	59
4.1.1	Trade-Off Theory.....	60

4.1.2 Pecking Order Theory	60
4.1.3 Mainstream Theories and Islamic Finance	60
4.1.4 Psychological Economic Theory	61
4.2 A Review of the Empirical Studies	64
4.3 Summary of Literature Review	68
4.4 Proposing New Conceptual Framework	70
4.4.1 Justification to Proposing a New Conceptual Model	70
4.4.2 Key Variables in the Conceptual Framework.....	70
4.4.3 Hypothetical SEM Model (Structural Model)	72
4.4.4 Conceptual Diagram	73
4.5 Chapter Conclusion.....	74
CHAPTER V	
RESEARCH METHODOLOGY AND DATA COLLECTION	76
5.1 Research Design.....	76
5.2 Qualitative Methodology	76
5.2.1 Quantitative Methodology	77
5.2.2 Integration of Qualitative and Quantitative Methods	77
5.2.3 Triangulation Approach.....	77
5.2.4 Rationale for Methodological Approach	77
5.3 Analytical Techniques.....	77
5.3.1 The Structural Equation Modeling (SEM)	78
5.3.2 The Construction for the SEM model	78
5.4 Data Collection Methods	79
5.4.1 Questioners	79
5.4.2 Qualitative Method (Semi-Structured Interviews).....	85
5.4.3 Combining Methods for Triangulation.....	88

5.5 Methodology Conclusion	90
CHAPTER VI	
DATA ANALYSIS	91
6.1 Questioner Analyses	91
6.1.1 Testing the Hypothesis	93
6.2 Hypothesis of Test	100
6.2.1 Path Analysis Using (SMARTPLS4)	100
6.3 Results Related to the Analysis of Personal Interview Questions	113
RESULTS AND CONCLUSION.....	123
Questioner Results	123
Interviews Results	125
Comparative Analysis between the Results of the Questionnaire and Interviews...	126
RECOMMENDATIONS.....	128
CONTRIBUTION.....	130
REFERENCES	132
APPENDIXES	157
APPENDIX 1: Pilot Test	157
APPENDIX 2: QUESTIONER.....	167
APPENDIX 3: INTERVIEWS	176

LIST OF TABLES

Table 2.1: The Geographical Distribution and Size of Establishments Across Various Palestinian Regions.....	16
Table 2.2: Data of the Palestinian Banking Sector 2016–2020 (USD Billion).....	27
Table 2.3: Business Obstacles Faced by Small Enterprises Compared to Larger Enterprises.....	32
Table 4.1: The Relation Between Variables As It Investigated In The Previous Studies	68
Table 4.2: Conceptual Framework Diagram.....	74
Table 5.1: Number of Operating Establishments* in the Private Sector, Non-Governmental Organization Sector and Government Companies Employment Size Group, 2017	83
Table 5.2: Demographic Information of the Respondents	85
Table 6.1: Demographic Characteristics of Respondents (N=240)	91
Table 6.2: Kolmogorov-Smirnov Test for Normality	93
Table 6.3: Multicollinearity Test (Dependent Variable: Decision Making - Adoption)	93
Table 6.4: Model Fit.....	94
Table 6.5: Results of Reliability and Validity Analysis.....	95
Table 6.6: Discriminant Validity Check Using Latent Variables Correlations for Attitude Towards Adoption Factors	98
Table 6.7: Discriminant Validity Check Using Latent Variables Correlations for Constrains Factors Effect.....	98
Table 6.8: Heterotrait-Monotrait Ratio of Correlations (HTMT) for Attitude Towards Adoption Factors	99
Table 6.9: Heterotrait-Monotrait Ratio of Correlations (HTMT) for Constrains Factors Effect.....	99
Table 6.10: Results of Coefficient of Determination R ² Analysis	99
Table 6.11: Results of Coefficient of Determination R ² Analysis for Constrains Factors Effect.....	99
Table 6.12: Path Coefficient of Awareness in Moderating the Relationship Between Attitude Towards Adoption Factors and Decision-Making.	100
Table 6.13: Path Coefficient Results of Shariah Commitment’s Moderating Effect on Attitude and Decision-Making.....	109

Table 6.14: Path Coefficient Results of Constraint Factors' Effect on Decision-Making	112
Table 6.15: Frequency and Percentage of Responses on Available Financing Tools	114
Table 6.16: Frequency and Percentage of Responses on Financial Instruments	115
Table 6.17: Frequency and Percentage of Responses on the Ability of Financing Tools to Provide Liquidity for Operational Expenses	116
Table 6.18: Frequency and Percentage of Responses on the Ability of Financing Tools to Provide Necessary Liquidity for Operational Expenses	116
Table 6.19: Frequency and Percentage of Responses on the Influence of Religious Considerations vs. Efficiency of Tools in Funding Decisions.....	117
Table 6.20: Frequency and Percentage of Responses on the Level of Awareness and Perception of Islamic Financing Instruments.....	118
Table 6.21: Frequency and Percentage of Responses about Effectiveness the Instruments for Operating Expenses and Working Capital Deficit.....	119
Table 6.22: Frequency and Percentage of Responses on Customer Satisfaction.....	120
Table 6.23: Frequency and Percentage of Responses on Obstacles Facing Establishments in Accessing Islamic Banking Financing Tools.....	121

LIST OF FIGURES

Figure 2.1: The distribution of establishments according to the size of employment	17
Figure 2.2: The distribution of establishments geographically and by size according to each area in Palestine	18
Figure 2.3: Distribution of MSMEs over Gaza Strip and the West bank	18
Figure 2.4: Distribution of each category's contribution to the labor force	19
Figure 2.5: Financing sources of Palestinian MSMEs	20
Figure 2.6: Financial Inclusion in Palestine	22
Figure 2.7: Palestinian Islamic Banks Total Financing Portfolio (2016).....	23
Figure 2.8: Globally Financing Gap	25
Figure 2.9: Middle East and North Africa Regions MSMEs Financing Gap.	25
Figure 2.10: Palestinian MSMEs Financing Gap.....	26
Figure 2.11: Islamic Banks Contribution in MSMEs Funding	28
Figure 2.12: Islamic Banks Allocation Funds.....	29
Figure 3.1: The key difference in the role of Islamic finance within supply chains compared to conventional models.	53
Figure 4.1: Conceptual Model of The Adoption Intent Factors of Islamic Banking Products. Case of Moroccan VSE (Sattar et al., 2019)	64
Figure 4.2: Conceptual Framework Diagram.....	64
Figure 5.1: Research Flow	89
Figure 6.1: The Factor Loading of the Items of Constructs of Constrains Factors Effect.	97
Figure 6.2: The Factor Loading of The Items of Constructs of Attitude Towar adoption Awareness' as A Moderator	97
Figure 6.3: The Factor Loading of The Items of Constructs of Attitude Toward Adoption Shariah Commitment' As A Moderator	97

ABBREVIATIONS

IDT	Innovation Diffusion Theory
IFC	International Finance Corporation
GDP	Gross Domestic Product
FIs	Financial Institutions
MFIs	Microfinance Institutions
MSMEs	Micro, Small, Medium Enterprises
NGOs	Non-Governmental Organizations
NFIS	National Financial Inclusion Strategy
PLS-SEM	Partial Least Squares - Structural Equation Modeling
PMA	Palestine Monetary Authority
PCBS	Palestinian Central Bureau of Statistics
SMEs	Small, Medium Enterprises
TPB	Theory of Planned Behavior
TRA	Theory of Reasoned Action
SEM	Structural Equation Model
USD	United States Dollar
WB	World Bank

CHAPTER I

INTRODUCTION

1.1 Overview

Financial institutions and banks play a vital role in bridging and reducing the financial imbalance between surplus holders and fund seekers and facilitating capital transfer between surplus and deficit units, by transferring funds from one side to another. When this transformation is done in a beneficial and economical way, it helps achieve economic efficiency and promote growth and stability.

All enterprises try to be unrestricted in financing the various needs essential to their operations depending on internal or external resources. As its growth and sustainability rely on adequate and effective financing (Pticar, 2016). Banks are considered one of the external sources of funding that enterprises rely on to secure sufficient funds for smooth operations and to cushion these enterprises in periods of economic upheaval. Bakar (2019) discussed how external financing affects SME development and economic growth his study confirms that improving access to external financing is an important growth factor for SMEs as well as for the entire economy. Enterprises can obtain external financing, using financial instruments.

Financial instruments fall into two main categories: bank-related instruments and capital market-related instruments. Kabiru et al, (2019) Mention that to address the potential risk of funding imbalances, Businesses typically assess their funding needs and select a financial instrument that aligns with their financial objectives taking into account cost expectations and the timing of required funds. Consequently, it can be argued that financial instruments of a short-term nature are typically offered by banks, while financial instruments with medium to long maturities are predominantly sourced from capital or stock markets (Kabiru et al, 2019).

Working capital is one of the key elements that is dependent on outsourcing financing. However, most of the funds required for working capital are not commodities that can be bought and sold, making them difficult to finance with Islamic financial instruments. This study focuses on the working capital financing methods provided by Islamic banks to finance operating expenses and funding needs for working capital in MSMEs,

as financing working capital constitutes a special challenge for Islamic banks, which must provide financing through Islamic financial instruments compatible with Islamic finance principles.

Corporate Finance focuses on various areas, including working capital. And there is interrelation between Capital structure management and working capital as it deals with debt and equity to back the activities of an enterprise. The enterprise's performance is affected by the process of drawing its working capital (Banos-Caballero et al., 2014). In Islamic finance, effective management of working capital while adhering to Islamic principles remain a challenge for Shariah-compliant businesses owing to the limitations set by Shariah principles. Sharia compliant enterprise rely on Islamic financing as a substitute to interest-based financing raising an important question about the effectiveness of Islamic options as a substitute of conventional options.

Financing targets vary from one customer to another and can also be changed for the same customer depending on different circumstances. When companies determine their financing objectives, they look for a financing method that matches the objectives in terms of the speed of raising funds, the cost of financing, the flexibility of financing and the type of financing, whether long-term or short-term.

It is important to note that those who engage in Islamic finance are classified into three groups, the first group give preference to Shariah-compliant products, while considering pricing, service quality, and other aspects. The second group includes customers that have some sharia sensitivities and are likely to choose Islamic products if the returns and service offerings are similar to those in conventional finance. The third group are those that are indifferent to Sharia sensitivities in financial transactions, but instead would choose products relying entirely on pricing, availability, service quality, and other relevant factors (Fitch Ratings, Inc., 2023).

Previous literature highlighted various challenges that a Sharia committed company face in securing Islamic financing to fund their operational expenses (Kayani, 2022; Firdaus & Sari, 2022). Bugshan and Bakry (2023) emphasize that “these restrictions significantly affect the availability of appropriate debt financing for Sharia-compliant enterprises”. The lack of appropriate financial solutions complicates the process of financing operational expenses and working capital needs, as well as leads to inefficiency in the capital structure.

In Palestinian context MSMEs face major challenges in accessing and managing financing and that they face obstacles in obtaining financing. Impacted by circumstances, rooted in the region's political and economic volatility (Baidoun et al., 2018). Due to the importance of MSMEs in Palestine as they constitute 80% of the workforce and 98% of the business sector, it is important to underscore the urgent need for exploring the specific obstacles that Shariah-compliant enterprises encounter in obtaining short-term financing and for developing effective strategies that address these challenges while ensuring compliance with Shariah principles.

The core objective of this study is to evaluate how factors such as effectiveness, accessibility, awareness, religiosity, and attitudes impact the accessing to Islamic finance and adopting of Islamic banking financing instruments to meet MSMEs working capital needs. This investigation will include viewpoints from financial managers in Shariah-compliant enterprises and financing officials in Islamic banks. Through the analysis of these factors, the study seeks to offer a thorough understanding of the effectiveness Islamic banking instruments for working capital financing among sharia committed MSMEs.

1.2 Importance and Motive of the Study

There is a number of problems which affect the Palestinian economy such as high unemployment, poverty, regional imbalances, and one of the primary challenges impacting economic development is the restricted availability of finance. MSMEs are highly vulnerable to financial fluctuations, making external debt a crucial resource for managing their operations. These enterprises often struggle to secure sufficient funding for their financial needs, which eventually limits their growth and effect on their sustainability. The Palestine Monetary Authority (PMA) has recognized the access to the finance is one of the main obstacles that face MSMEs in Palestine and it mentions a urgent need to facilitate and improve financial access for individuals or MSMEs, for this purpose it has built a national strategy for financial inclusion.

One of the motivations for this study is to align it with the national strategy to enhance financial access by investigating the suitability of Islamic financing instruments to working capital needs, as the suitability of these instruments is considered one of the factors that affect financial access and improve financial inclusion.

Current literature recognizes that Shariah compliance can sometimes be a hindrance to accessing financial services and securing appropriate fund, and that Islamic financial planners may struggle to provide effective financial solutions and may lack flexibility in providing efficient financial methods.

The objective of this study is to highlight the reality of Islamic bank financing instrument to finance working capital needs by examining the factors that may affect decision-making of MSMEs toward adoption of Islamic banking financing instruments to finance their working capital needs. It also explores challenges and opportunities within this framework and provides insights and recommendations. This study opens the door in two directions. The first is introducing and developing Islamic financing instruments specifically designed for working capital needs, and the second is adapting and utilizing current Islamic banking instruments to obtain the necessary financing to meet the working capital needs of establishments.

1.3 Thesis Statement

In general, the statement of the thesis summarizes the main point of the research (Miller & Pessoa, 2016). This dissertation studies how well Islamic banking instruments meet the working capital needs of enterprises, by application on Palestinian MSMEs by considering various factors, such as; Effectiveness, Accessibility, Awareness and Religiosity. It also seeks to explore the effect of these factors in the adoption of Islamic banking instruments, and highlights its challenges in financing working capital. The study aims at revealing how these factors influence the attitudes of financial managers in MSMEs towards utilizing Islamic methods offered by Islamic banks to meet their working capital needs.

1.4 Research Problem

Many previous studies indicate that there is a clear gap between the availability of Islamic financing tools and their suitability to the different financing needs of MSMEs. This gap poses the significant challenges that face Shariah-compliant enterprises in managing their working capital due to the restrictions imposed by Islamic principles on conventional financial instruments. Altaf and Shah (2019) argued that while Islamic banking instruments offer Shariah-compliant solutions, their efficacy remains uncertain.

Effectiveness in addition to other factors; Accessibility, awareness and religiosity may influence the adoption of Islamic bank financing instruments. Therefore, there is an urgent need to study these factors that may influence the attitudes of owners or managers towards adopting Islamic banking instruments.

The problem this study addresses is the uncertainty about the ability of MSMEs to effectively access Islamic banking financing that meets their operational needs and securing the working capital financing that necessary for their business continuity and growth in addition to profit maximizing.

Shariah-compliant businesses face a major challenge in managing their working capital needs effectively while committing to Islamic principles and avoiding interest-based financing, as this may have the following consequences:

a) Financial Instability: Companies without proper financing face risk and uncertainty. Rogerson (2006) maintains that lack of access to finance is the main problem. All other problems stem from this. Companies may use poor financing methods, causing instability.

b) Limiting Investment Opportunities: The scarcity of Shariah-compliant financing restricts Shariah-compliant businesses from seizing new business opportunities.

c) Reducing competitiveness: The availability of financing options for companies that are not committed to Islamic financing principles gives them a competitive advantage over companies committed to Sharia.

d) Low effectiveness of cash flow management: The inability to access appropriate financing limits the ability of Sharia-compliant enterprises to benefit from managing their activities profitably in profitable manure, and to achieve the maximum benefit from their cash inflows and outflows.

1.5 Research Aim

This study mainly aims to evaluate the effectiveness of MSMEs' access to Islamic banking financing to meet their working capital needs. It also seeks to understand the factors that influence the decisions of business owners and financial managers to adopt Islamic finance, including effectiveness, accessibility, awareness, and religious considerations. In this way, the study aims to provide a comprehensive vision of the reality of Islamic banking financing in the context of short-term financing.

1.6 Main Questions

What is the influence of perceived, effectiveness, constrains, religiosity, awareness and attitudes of financial managers on their decision of adoption Islamic methods offered by Islamic banks to finance their enterprises working capital needs? This basic question has led to a whole set of detailed questions in the order as follows:

- a) To what extent does religiosity impact attitudes of financial managers in MSMEs towards the adoption of Islamic banking financing solutions?
- b) What is the influence of the awareness of Islamic banking instruments on the attitudes of financial managers in MSMEs towards adoption of Islamic banking financing instrument to financing working capital needs?
- c) What effect does the perception of accessibility to Islamic banks financing have on the attitudes towards adoption them for financing working capital needs?
 - 1- To what extent do the perceived collateral requirements influence attitudes toward utilizing Islamic banking instruments?
 - 2- In what ways does the nature of contracts and procedures influence attitudes towards utilizing Islamic banking solutions?
 - 3- To what extent does the flexibility of utilizing Islamic bank instruments influence attitudes toward adopting these instruments in financing working capital?
 - 4- How does the availability of Islamic banking tools affect the attitudes of financial decision makers towards employing these options to finance working capital needs?
- d) What is the impact of the effectiveness of Islamic banking tools on the position of financial decision makers in micro, small and medium enterprises towards adopting them?
 - 1- How does the perceived cost-effectiveness of Islamic banking solutions influence attitudes towards their adoption for financing working capital needs?
 - 2- What is the impact of the perceived liquidity effectiveness on the attitudes toward the adoption of Islamic banking financing instruments to finance working capital needs?

1.7 Research Hypotheses

In this section, the researcher presents the hypotheses formulated to achieve the research objectives. In light of the Literature analysis and the conceptual framework, a sequenced number of hypotheses were established. The following presents the main and sub-hypotheses that will guide the study in achieving its objectives:

1.7.1 First Main Hypothesis

H0₁: Awareness has no significant effect on the relationship between the attitude factors and adoption of Islamic banking financing instruments.

Sup hypothesis:

1. H0_{1.1}: Associated liquidity risks don't have significant effect on (adoption) of Islamic banking financing instruments.
2. H0_{1.2}: Awareness don't have significant effect on (adoption) of Islamic banking financing instruments.
3. H0_{1.3}: Complexity doesn't have significant effect on (adoption) of Islamic banking financing instruments.
4. H0_{1.4}: Effective communication doesn't have significant effect on (adoption) of Islamic banking financing instruments.
5. H0_{1.5}: Flexibility doesn't have significant effect on (adoption) of Islamic banking financing instruments.
6. H0_{1.6}: Personalization doesn't have significant effect on (adoption) of Islamic banking financing instruments.
7. H0_{1.7}: Sharia compliance doesn't have significant effect on (adoption) of Islamic banking financing instruments.
8. H0_{1.8}: Transactions processing time don't have significant effect on (adoption) of Islamic banking financing instruments
9. H0_{1.9}: Costs don't have significant effect on (adoption) of Islamic banking financing instruments.
10. H0_{1.10}: Awareness do not moderate the relationship between perception costs and (adoption) of Islamic banking financing instruments.

11. H0_{1.11}: Awareness do not have moderate effects on the relationship between transaction processing time and (adoption) of Islamic banking financing instruments.

12. H0_{1.12}: Awareness do not have moderate effects on the relationship between effective communication and (adoption) of financing instruments offered by Islamic banks.

13. H0_{1.13}: Awareness do not have moderate effects on the relationship between Sharia compliance and (adoption) of financing instruments offered by Islamic banks.

14. H0_{1.14}: Awareness do not have moderate effects the relationship between personalization and (adoption) of Islamic banking financing instruments.

15. H0_{1.15}: Awareness do not have moderate effects on the relationship between complexity and (adoption) of Islamic banking financing instruments.

16. H0_{1.16}: Awareness do not have moderate effects on the relationship between associated liquidity risk and (adoption) of Islamic banking financing instruments.

17. H0_{1.17}: Awareness do not have moderate effects on the relationship between flexibility and (adoption) of Islamic banking financing instruments.

1.7.2 Second Main Hypothesis

H0₂. Shariah commitments (religiously) have no significant moderating effect on the relationship between the attitude factors and the (adoption) of Islamic banking financing instruments.

Sup hypothesis:

1. H0_{2.1}: Shariah commitments do not have significant moderation effects on the relationship between costs and (adoption) of Islamic banking financing instruments.

2. H0_{2.2}: Shariah commitments do not have significant moderation effects on the relationship between transaction processing time and (adoption) of Islamic banking financing instruments.

3. H0_{2.3}: Shariah commitments do not have significant moderation effects on relationship between effective communication and (adoption) of Islamic banking financing instruments.

4. H0_{2.4}: Shariah commitments do not have significant moderation effects on moderate the relationship between Sharia compliance and (adoption) of Islamic banking financing instruments.

5. H0_{2.5}: Shariah commitments do not have significant moderation effects on relationship between personalization and decision-making (adoption) of Islamic banking financing instruments.

6. H0_{2.6}: There is no statistically significant effect of sharia commitments on the relationship between the complexity of Islamic financing contracts and the decision to adopt these Islamic banking instruments by financial officials in MSMEs.

7. H0_{2.7}: There is no statistically significant effect of sharia commitments on the relationship between associated risk of Islamic banking instruments and decision-making (adoption) by financial officials in MSMEs.

8. H0_{2.8}: Shariah commitments do not have significant modifying effects on the relationship between flexibility and decision-making (adoption) of Islamic banking financing instruments.

1.7.3 Third Main Hypothesis

H0₃: There is no significant effect of the constraint factors on the (adoption) of Islamic banking financing instruments.

Sup hypothesis:

- H0_{3.1}: Accessibility doesn't have significant effect on (adoption) of Islamic banking financing instruments.

- H0_{3.2}: Availability doesn't have significant effect on (adoption) of Islamic banking instruments.

- H0_{3.3}: Collateral requirements don't have significant effect on (adoption) of Islamic banking instruments.

1.8 Research Objectives

a. To investigate the influence of religiosity on the attitude of financial managers in enterprises towards the adoption of Islamic banking instruments in financing their working capital needs. (that make comprehensive understanding about the motive of

these enterprises in adoption Islamic instrument. is that due to its effectiveness or due religious sensitivity)

b. To investigate the influence of awareness on the attitude of financial managers in the enterprises towards the adoption of Islamic banking instruments in financing their working capital needs.

c. Identify key factors that influence the attitude of financial managers in enterprises towards adopt of Islamic banking methods to finance their working capital needs.

d. To assess the effectiveness of the financing instruments which are offered by Islamic banks to meet working capital needs.

e. To assess the accessibility of Islamic banking methods for financing working capital in Palestinian enterprises and the effect of accessibility on the adoption decision.

f. To investigate the factors that may constrain the adoption of Islamic finance methods.

1.9 The Values and the Originality

a. Original Contribution: This study explains the factors that may affect attitudes towards the adoption of Islamic financing instruments in Palestinian context.

b. Practical relevance: It explains the factors that have an effect on the attitudes of financial managers of MSMEs which operate in Palestine towards the use of Islamic banking financing instruments to finance working capital.

c. Benefits to stakeholders: These have tangible benefits to various stakeholders including financial institutions, companies, policy makers and regulators. This study as analytical study can give the Islamic financing engineers the ability to develop Islamic financing instruments that are compatible with the provisions of Islamic Sharia at the same time maintains the performance efficiency in achieving the interests of the enterprises, which is reflected in financial access that helps to promote growth and steadiness in Islamic financial markets.

d. Theoretical contribution: The study builds theoretical understanding about the conditions of working capital financing with Islamic banking instruments, and the key factors that may enhance decision-making (adoption).

1.10 Population

This study involved two groups of stakeholders, namely they are the two main groups of stakeholders those have observation on financing process: 1) financial managers of MSMEs, 2) financing officers of Islamic banks.

a. Financial managers in Shariah-compliant enterprises: financial managers play a key role in shaping financial strategies and financial decisions for projects. They are the ones responsible for rationalizing financing decisions. Therefore, they are the relevant parties most informed about how the use (adoption) financing methods in their financing decision, and they are also the most informed about the practical effects and challenges that they may face when relying on these tools to financing working capital.

b. Financial officers in Islamic banks : those who have first-hand knowledge of the processes and challenges associated with Islamic financial products, As they carry out financing transactions and are involved in making financing decisions, their ongoing interaction with MSMEs also provides unique insights into the needs and challenges of this sector, making them a key source for understanding the effectiveness and feasibility of Islamic financial instruments and bridging the gap between theory and practice.

1.11 The Scope and Content of the Research

a. Geographical scope: Due to the political obstacles in Palestine and the complicated process of carrying out the study on Gaza Strip, this research focuses only on the West Bank. Accordingly, this study will be more targeted for a controlled number of enterprises (which use Islamic finance in this targeted area). This will make the study more manageable and detailed.

b. Industrial scope: The research is applicable for different MSME industries in Palestine.

1.12 Study Limitations

a. The study does not consider the legal aspects of Islamic contracts used in financing. The researcher relied on what has been issued by official authorities, such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

- b. The study include micro, small and medium enterprises, while excluded the large enterprises and listed companies due to the great difference of the administrative structure, financial policies, and ability to access financing tools. Therefore, the study focuses more on the challenges and opportunities of smaller enterprises, which often face financial and management conditions that are completely different from those faced by large and listed companies.
- c. The study is conducted only for MSMEs operating in the West Bank. It will not cover those in Gaza due to the political conditions.

1.13 Research Methodology (General Overview)

In order to guarantee comprehensive data collection, a mixed-method approach is applied in this study. Integrating quantitative and qualitative methods provides a deep insight of the dynamics of financing working capital in enterprises compatible with Islamic Sharia and the possibility of employing Islamic banking financial instruments to short term finance and working capital needs.

Combining these methods with different stakeholders allows for a holistic exploration of the research objectives and effective answering of the research questions. With this method, commonly referred to as a stakeholder questioner, one of the stakeholder groups (financial managers in Shariah-compliant enterprises) is asked to gather insights and perspectives relevant to the Islamic banking method in working capital financing. We seek to understand how financial managers in Shariah-compliant companies view and experience Islamic banks' financing instruments and its applicability to financing short-term working capital needs.

The second method is conducting structured interviews with financing officers in Islamic banks. Using this method, the researcher will gather their views on financing practices and their observation about the challenges that may face MSMEs to obtain finance to their working capital needs and explore the factors that may influence the enterprises. The adoption decision of these instruments will also be studied.

1.14 Organization and Structure of the Dissertation

The dissertation study includes an introductory chapter, followed by five addition chapters and a concluding section.

Introduction: The aims of the research and the questions of the study are summarized in this section. It explains why this topic was chosen and emphasizes its importance, and the introduction describes the structure of the dissertation.

Chapter two: This chapter studies MSMEs in Palestine and discusses their importance, types and challenges. This chapter investigates the role of micro, small, and medium enterprises in economic growth, which includes statistical insights, and specific challenges that face these enterprises in Palestine, and checks the available financing options and regulatory issues affecting the efficiency of working capital in these enterprises.

Chapter three: This chapter deals with the concept of working capital and its financing from different perspectives. It defines working capital and discusses its components, its importance and financing policies for working capital, the sources of short-term financing of working capital, working capital in Islamic thought, and the impact of Shariah compliance on financial policies and cash holding, and the alternative Islamic financing instruments.

Chapter four: This chapter discusses the theoretical framework for studying working capital management and finance, examines the existing theories and the limitations of their use in Islamic finance, and summarizes the main theoretical ideas of Islamic finance. In addition, this chapter deals with theoretical visions relevant to corporate financial management in line with Islamic Shariah and reviews the theoretical underpinnings of the previous literature examined as the theoretical basis for the studies conducted in the previous literature and their implications for capital management.

Chapter five: It introduces the methodology and data collection and serves as a methodological guide. It manifests the structure of the research methods and highlights their crucial importance for the credibility, reliability and validity of the study results. This chapter also explores the topic in depth by using a comprehensive approach that includes two types of research with different types of stakeholders (financial officers in Islamic banks and financial managers in Sharia-compliant enterprises).

Chapter six: This chapter discusses the results of the analysis in the context of the theoretical considerations of this dissertation. It highlights the importance of the results of this study about the financing of working capital in enterprises that are compatible

with Islamic Sharia. This chapter serves as a conclusion; in addition to making recommendations, it summarizes the main findings and their implications, focusing on how the study complements the existing literature.



CHAPTER II

MSMES IN THE PALESTINIAN TERRITORIES

2.1 Introduction

In the dynamic landscape of the global economy, emerging economies are shaping the future of the world economic activities. In the emerging economies MSMEs are essential as they form their foundational market infrastructure and make up over 95% of registered companies globally (World Bank, 2018). SMEs are universally acknowledged for their substantial role in global economies (Naser, 1999). SMEs often act as catalyst for economic inclusion and are considered engines of economic growth (Ardic et al., 2011), and in creating many new job opportunities, diversifying a country's economic foundation, and promoting innovation.

According to the OECD (2018) micro, small and medium enterprises provide job opportunities for a significant proportion of the population, as they create between 60 and 70% of all jobs in emerging economies, they contribute nearly 45% of the overall workforce and 33% of the GDP in emerging economies.

2.2 MSMEs Definition

It might be challenging to define a MSMEs because in various parts of the world. A cursory examination of the literature reveals that these enterprises lack a consensus definition (Chittithaworn et al., 2011). There is no globally accepted a single standardized definition of SMEs (Robu, 2013). SMEs' meaning varies greatly from country to country because of disparities in the existing economic, social, cultural, and economic situations, common factors include the number of workers, overall net assets, turnover, and amount of investment (Ademola et al., 2012).

MSMEs covers a wide range of definitions, all of which are largely quantitative in nature and vary considerably between economies and regions. This is to be expected as economies have different structural, cultural and political reasons for adopting their definitions of MSMEs. In general, MSMEs are defined quantitatively and are based either on the number of employees, turnover or assets. Alternatively, they can be based on a combination of two of these measures or even all of them. Some are enshrined in law, while others are based on practice and policy (World Bank Group, 2019).

Palestinian definition: According to Wafa, (2021) the Palestinian government announced uniform criteria for the definition of economic enterprises which aims to standardize the definition and reference for all enterprises in Palestine. According to these standards, economic institutions are divided into five categories:

1. Microenterprises: with 1-4 employees and a turnover volume of USD 100,000 or less.
2. Very small: with 5-9 employees and a turnover of USD 200,000 or less.
3. Small: these enterprises owned by individuals or families with 10-19 employees and a sales volume of USD 500,000 or less.
4. Medium: with 20-49 employees and a sales volume of USD 2,000,000 or less.
5. Large: with 50 employees or more and a sales volume exceed 2,000,000 USD.

2.3 MSMEs in Palestine

Palestine is a developing economy with a middle range of human development. The MSMEs sector plays a vital role in the Palestinian economy as it assists the economy's growth and provides a better living for the Palestinian people. Moreover, MSMEs in Palestine have an essential role in reducing unemployment by creating numerous job opportunities (Mosalleh, 2016). Morrar et al. (2019) argued that small and medium Palestinian enterprises are one of the means of combating unemployment and poverty, and that they also have a significant impact on economic growth, particularly in the West Bank, and its work engine of the economy.

2.4 Palestinian MSMEs Distribution

The Palestinian Central Bureau of Statistics (PCBS) highlighted the geographical distribution and size of establishments across various Palestinian regions, revealing that the majority of businesses are very small.

Table 2.1: The Geographical Distribution and Size of Establishments across Various Palestinian Regions

Employment Size Group	Governorate	Micro (1-4)	Very small (5-9)	Small (10-19)	Medium (20-49)	Total
All Palestine		13087	10847	3839	2093	146866
GAZA		41641	3490	1110	584	48825
West Bank		88446	7357	2729	1509	100041

	JENEN	11709	747	189	87	12732
	Tubas	1618	95	31	16	1760
	Tulkarm	6679	426	150	59	7314
	Nablus	14134	1218	442	193	15987
	Qalqilya	3650	236	73	35	3994
	Salfit	2418	186	61	38	2703
	Ramallah	12159	1420	598	430	14607
	Jericho	1153	79	41	40	1313
	AL-QUDS	8417	687	365	159	9628
	Bethlehem	7287	649	272	186	8394
	Hebron	19222	1614	507	266	21609

Source: This table was prepared based on data from the Palestinian Central Bureau of Statistics for the year 2018.

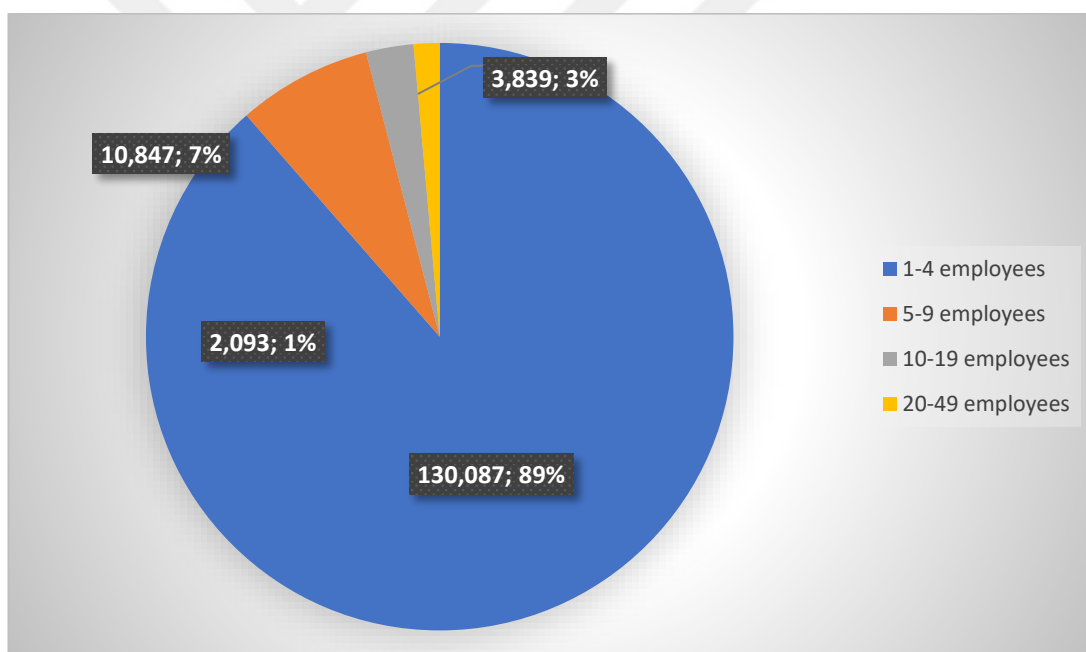


Figure 2.1: The distribution of establishments according to the size of employment

Source: This figure was prepared based on data from the Palestinian Central Bureau Of Statistics for the year 2018.

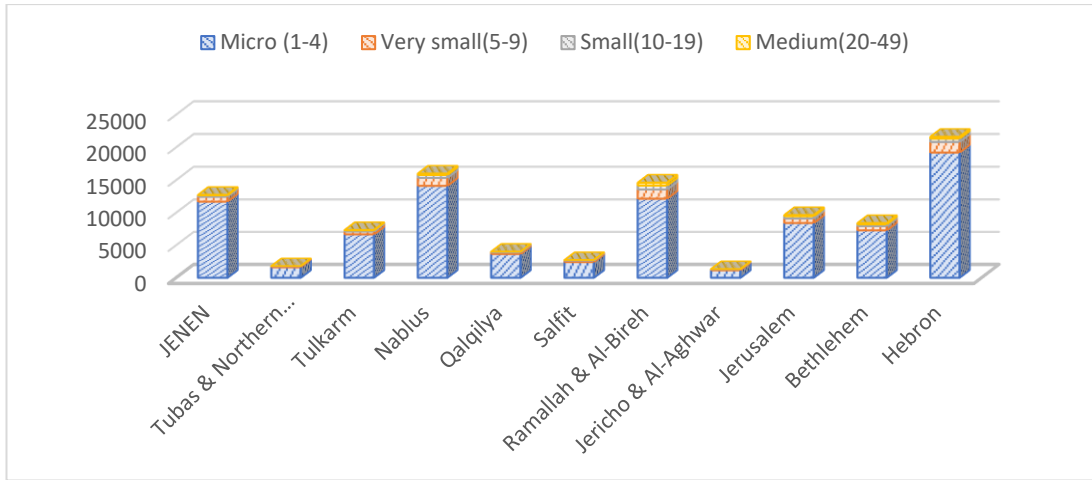


Figure 2.2: The distribution of establishments geographically and by size according to each area in Palestine

Source: This figure was prepared based on data from the Palestinian Central Bureau of Statistics for the year 2018.

2.5 MSMEs Contributions

Palestinian Central Bureau of Statistics data for 2018 showed that the number of workers in micro, small, and medium enterprises in Palestine reached 409,242 workers, with 69.8% in the West Bank and 30.2% in Gaza.

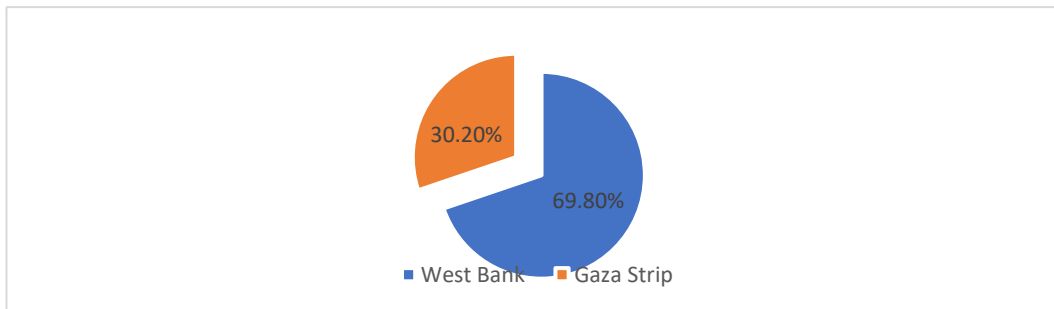


Figure 2.3: Distribution of MSMEs over Gaza and the West bank

Source: This figure was prepared based on data from the Palestinian Central Bureau of Statistics for the year 2018.

The following distribution shows the contribution of each category of these establishments to employing the labor force in Palestine as follows:

- a. Micro enterprises (1-4 workers): They employ 208,331 people.

- b. Small enterprises in the first bracket (5-9 workers): They employ 62,712 individuals.
- c. Small enterprises within the second bracket (10-19 workers): They employ 43,829 individuals.
- d. Medium enterprises within the first bracket (20-49 workers): They employ 41,693 individuals.
- e. Medium enterprises within the second bracket (50-99 workers): They employ 17,856 individuals.
- f. Large enterprises (100 workers or more): They employ 34,821 individuals

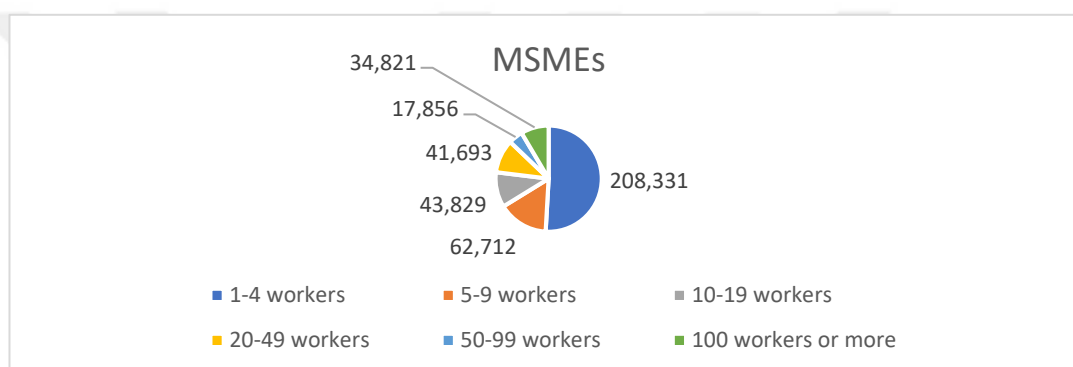


Figure 2.4: Distribution of each category's contribution to the labor force

Source: This figure was prepared based on data from the Palestinian Central Bureau of Statistics for the year 2018.

2.6 Contribution of MSMEs in Palestinian Economy Compared to Global Figures

The economic activity in most developing countries is largely shaped by MSMEs, and Palestine is no exception. According to World Bank (2019) the number of MSMEs per 1,000 people in developed countries is higher than the number in developing countries. Based on the World Bank figures, there are about 62 institutions per thousand people in developed rich countries, while the Middle East and North Africa report 28 institutions per thousand people, South Asia has just 4.

These numbers indicate a positive relationship between the number of micros, small and medium enterprises and income levels. The percentage of micro, small and medium enterprises in Palestine is similar to that in other developing countries; they

constitute 99% of all institutions, in spite of that, there are only 29 per thousand people, according to (MAS, 2009).

SMEs are a cornerstone of the Palestinian economy, contributing over 55% to the GDP and employing 85% of the active labor force (European Investment Bank, 2023). Based on the data of the Palestinian Central Bureau of Statistics published in the report “The Most Prominent National Accounts Indicators in Palestine for the Years 2021-2022” at constant prices (base year 2015), the gross domestic product in Palestine for the year 2022 reached approximately 15,635 million US dollars (Palestinian Central Bureau of Statistics, 2023).

2.7 Sources of Finance for MSMEs in Palestine

The growth and sustainability of both new and existing MSMEs depend largely on access to finance. According to Ishaq (2022), an SME owner may have a practical business plan, but its successful implementation relies on adequate financial resources. MSMEs have fewer financing options available to them compared to larger enterprises. In Palestine, MSMEs are predominantly family-owned businesses within the service and retail sectors, primarily financed through personal and family savings. There are, according to Sabri (2008), three sources of financing which the private sector in Palestine can access. Internal funds, such as paid-in capital in addition to retained earnings, serve as the primary source while the second source comes from credit extended by suppliers (Accounts payable). The third source is bank loans. A study by Karem (2010), personal contributions represented 87.1% of the total financing, whereas loans and credit payments accounted for 8.2% and 4.7%, respectively.

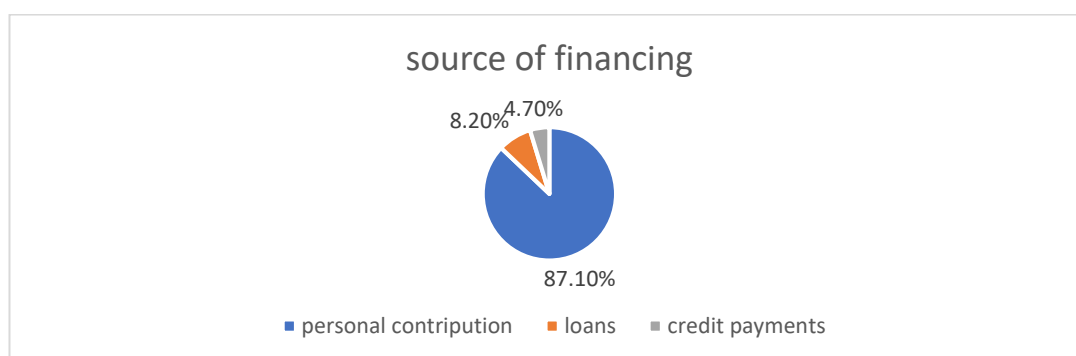


Figure 2.5: Financial Inclusion and MSMEs

Source: This figure was prepared based PMA adapted from Karem, N. (2010).

Furthermore, the study found that 62% of SMEs' financing needs were accommodated by private funds, and business owners preferred to use their private funds to finance their projects. The study also shed a light on that long-term loans were chosen as the last option, preceded by short-term loans (Karem, 2010). In the study by Ibrahim and Shkoukani (2016), it is reported that 80% of Palestinian SMEs finance operational and start-up costs using their owners' personal savings.

2.8 Financial Inclusion and MSMEs

PMA's 2016 mentions that, Financial stability promotes efficient fund flow between households, corporations, governments, and internationally. Almaleeh (2020) explains financial inclusion is the access of individuals and businesses to formal financial products and services offered by banks at a reasonable cost and in a reasonable manner.

According to Aterido et al. (2009), extensive evidence highlights the pivotal role of the investment climate, particularly financial inclusion, in fostering firm growth, a significance particularly pronounced in developing countries where the market and institutional structures are less advanced.

Beck and Demirguc-Kunt (2006) stress the importance of financial inclusion in mitigating growth constraints for MSMEs and improving their access to external finance, this helps create a more equal competitive landscape between firms of different sizes. At the organizational level, strong evidence suggests that small enterprises encounter more significant growth challenges and struggle with restricted their ability to obtain formal credit facilities (Beck & Demirguc-Kunt, 2006).

The reason why MSMEs heavily depend on internal finance is the constraints which considering aspects like limited transparency (Berger & Udell, 1998), absence of trading history (Cassar, 2004), as well as a greater risk of failure (Huyghebaert & Van de Gucht, 2007).

Financial access refers to the capacity of individuals or organizations to secure a range of financial services, including services like credit, savings, payment insurance, and a variety of other risk management solutions (Arora, 2010). The significance of banks as service providers and access to financial services, in the developing countries, is underscored in terms of the affordability of financial resources for MSMEs to fulfill their role in the economy (Bongomin et al., 2017).

The quality of financial access is measured by credit quality, which involves appealing credit offers, competitive interest rates, and suitable payment methods, in addition to efficient and optimized financial dimensions, such as simplified expenses, account yields, and loan volume. Bongomin et al. (2017) determine that access to finance is crucial for business growth, which significantly impacts the business performance. Adomako et al. (2015) Abe (2015) relate this to indicating that the availability of bank funding facilities is what ensures the success of MSMEs.

2.8.1 Financial Inclusion in Palestine

Being a critical component of economic development and social progress, financial inclusion in Palestine addresses the accessibility and utilization of financial services by either the individuals or businesses. Based on the National Financial Inclusion Strategy (NFIS) of Palestine the proportion of financially covered adults is reported as 36.4%, which implies that 63.6% of individuals endure some financial exclusion (Palestinian Capital Market Authority, 2018).

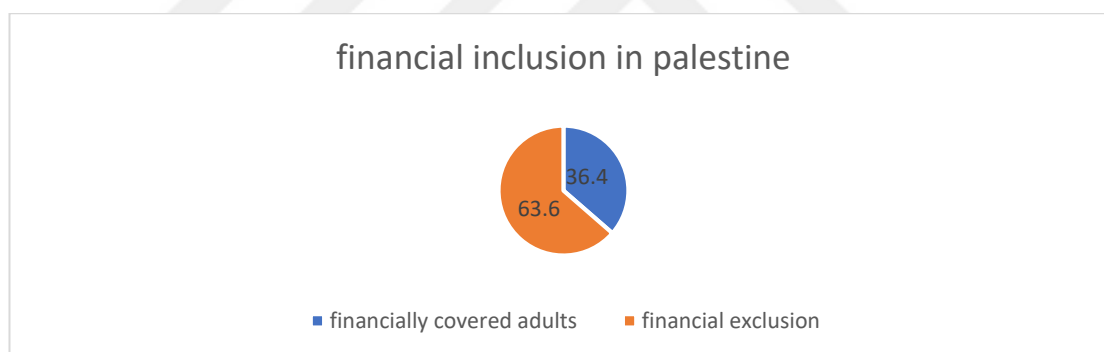


Figure 2.6: Financial Inclusion in Palestine

Source: This figure is prepared on the basis of data adapted from Palestinian Capital Market Authority (2018).

The Palestinian Monetary Authority conducted an inclusive study to evaluate the state of financial inclusion in Palestine and manifest critical conclusions and constant challenges by conducted thorough research to assess the reality of financial inclusion in which revealed several key findings. Analysis of survey data from 2016 revealed a low financial inclusion rate of only 36.4% of the total adult population, or approximately 898,732 individuals, which is worrying. Consequently, the vast majority of adults are excluded from the financial system. Many problems remain in

terms of access to finance and the use of financial services and products, particularly for SMEs.

According to PMA, the vast majority of SMEs have difficulties obtaining formal financing. In June 2016, only around 44,000 SMEs received loans from microfinance institutions and banks. Compared to the total loan portfolio of these institutions, the proportion of loans granted to SMEs is no more than 17%, which indicates a weak flow of credit to this sector (Palestinian Capital Market Authority, 2018).

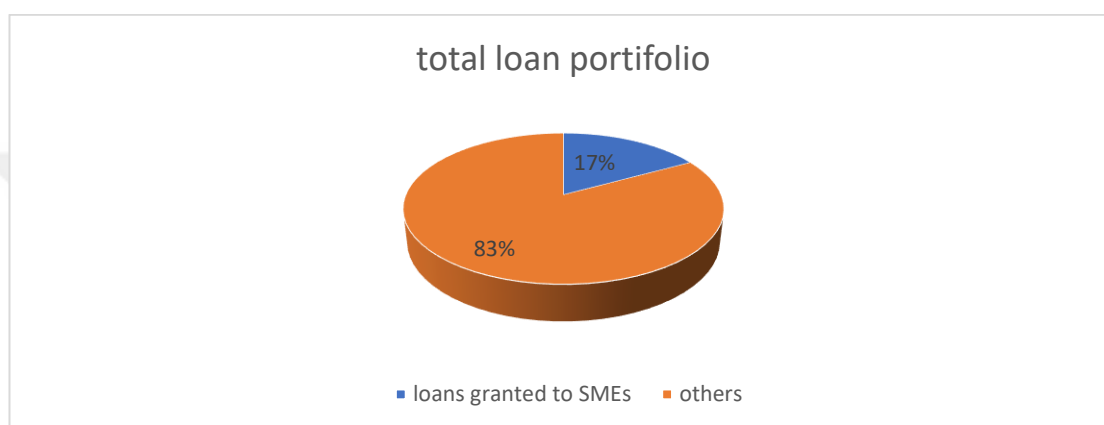


Figure 2.7: Palestinian Islamic Banks Total Financing Portfolio (2016)

Source: This figure was prepared based on data adapted from Palestinian Capital Market Authority (2018).

Previous figures mention to the barriers ongoing regarding SME access to finance and the use of financial services in the areas Palestine.

Financial inclusion in Palestine faces both internal and external barriers. Such barriers include factors on both the supply and demand side that make it difficult to access financial services and products. An example of the internal barriers is the effect of the quality of financial services and products available, while limitations of the financial market can be an example of the external barriers.

Evidently, the primary constraints on the supply side include the high costs accompanying offering financial services and products, which are exacerbated by inadequate regulatory frameworks within financial institutions that limit their operational capacity. Whereas cultural, economic and social factors, on the demand side, contribute to such barriers, such as low levels of awareness and financial literacy, as well as religious beliefs.

Referring to the study conducted by the Palestinian Capital Market Authority (2018), it is evident that Shariah commitments in financing Influences significantly on the access to financial services; 31% of adults keep away from using financial services for religious reasons. A percentage of 13.9% of unbanked adults refer to religious quotes preventing them from obtaining credit, while 11.7% mention religious reasons for not having insurance policies.

Therefore, according to these findings, religious beliefs significantly affect financial inclusion and contribute to reduced access to financial services. High transaction costs for the provision of services and inadequate regulatory and legal frameworks are an example of supply-side constraints, which also play an important role in limiting financial inclusion. As a result of these restrictions, certain population groups and certain service sectors are affected. In spite of all efforts, the financial sector still suffers from deficiencies such as a lack of technical understanding and costly and incompetent legal procedures. Proving to be a real obstacle, the divergence between supply and demand is another significant barrier to financial inclusion. Accordingly, the absence of appropriate financial services and products can still be a supply-related factor, which affects certain groups such as micro-entrepreneurs, smallholder farmers, low-income women and people with little education in particular.

2.8.2 Financing Gap of Palestinian MSMEs

The literature emphasizes a significant relationship between the availability of finance and SME growth. Adding to the debate on the SME financing gap, Dom Heer et al. (2014) argue that limited access to external financing sources restricts SME growth. This leads to a financing gap, indicating that critical barriers may prevent access to equity for owner-managers. (Al-Afifi, A. A. M., 2020).

The financing gap for SMEs is a global issue. According to the World Bank (2019), SMEs often face significant difficulties in securing bank loans, forcing them to rely on internal resources or informal support. The International Finance Corporation (IFC), according to the World Bank (2019), estimates that there are 65 million formal SMEs in emerging economies with an unmet need for financing of \$5.2 trillion annually, 1.4 times the volume of current global loans to SMEs.

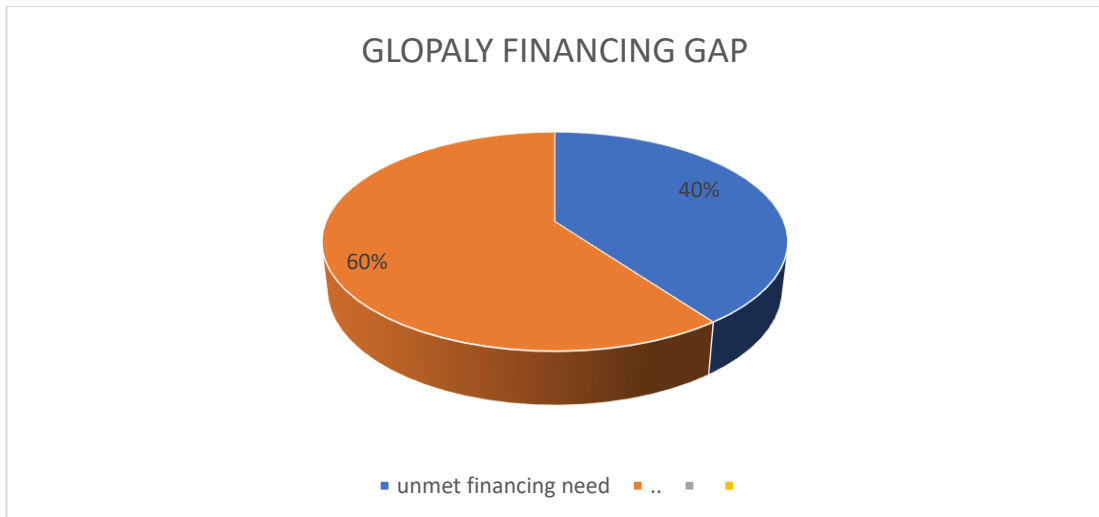


Figure 2.8: Globally Financing Gap

Source: This figure is prepared based on data adapted from World Bank (2019)

The largest share of this gap is in East Asia and the Pacific, followed by Latin America and the Caribbean, then Europe and Central Asia, and this problem is exacerbated in very small and informal businesses.



Figure 2.9: Middle East and North Africa Regions MSMEs Financing Gap.

Source: This figure prepared based on data adapted from World Bank (2019).

In the Palestinian context, many issues exist regarding the usage and access to finance for Palestinian SMEs. According to the Palestine Monetary Authority (PMA) as of June 2016, in the financial inclusion strategy, the vast majority of SMEs suffer from poor access to formal finance. Only 44,000 of these SMEs obtained loans from microfinance institutions (MFIs) and banks, representing a very small proportion of the total outstanding loans. In comparison, these institutions accounted for only 17% of the total portfolio credit.

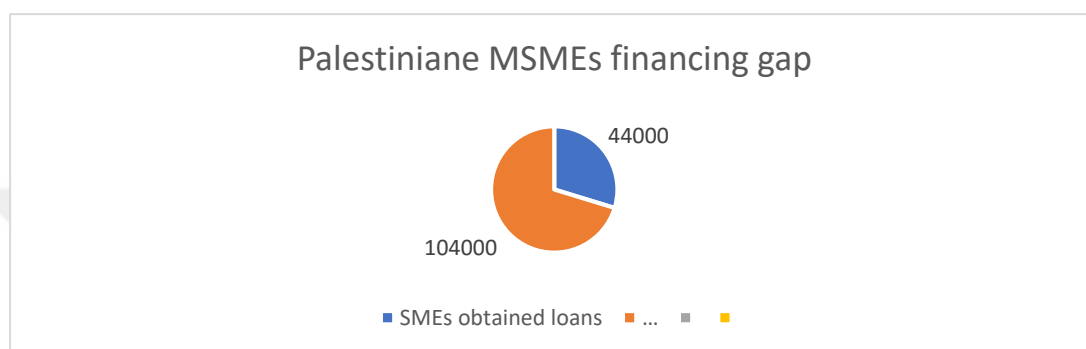


Figure 2.10: Palestinian MSMEs Financing Gap

Source: This figure prepared based on data adapted from Palestine Monetary Authority (PMA) as of June 2016.

2.9 Financial Institutions and (MSMEs) in Palestine

Acting as complementary sectors, financial institutions and MSMEs are two vital sectors that significantly contribute to the growth of the economy. Thus, MSMEs foster economic development through job creation and enhancing GDP, while financial institutions assist MSMEs in growing by delivering investment financing (Hayati & Fatarib, 2022).

In Palestine, the banking system, which includes commercial banks, Islamic banks, and other financial institutions such as mortgage finance companies and investment firms, alongside monetary authority that manage monetary and financial policies, perform diverse banking services to individuals and businesses.

The banking system in the Palestinian territories is considered a result of the historical development that was initially characterized by weakness and distortion in its structure and activity due to the political circumstances Palestine underwent. When the Palestinian Monetary Authority was initiated in 1994, there were only two national

banks with only (14) branches. It is noteworthy that the number of banks operating in Palestine reached (13) by the end of the year of 2021, including (7) local banks, 4 commercial and 3 Islamic, in addition to (6) expatriate banks, 5 Jordanian commercial banks and one Egyptian commercial bank. (Association of Banks in Palestine. (2023, July 16).

The Palestinian banking system offers a wide range of financial services, such as current and savings accounts, loans and financing, electronic banking services, currency exchange services, credit card issuance and online banking.

Commercial banks play a major role in the banking system, providing services to both individual customers and companies. Islamic banks, on the other hand, specialize in providing Sharia-compliant financial services, such as Islamic banking, offering financing on a profit-sharing basis, and providing alternative Islamic financing solutions.

It is worth noting that Palestinian banks have the ability to generate deposits while this is true, their lending is predominantly aimed at large private-sector enterprises, particularly those involved in consumer products (Sultan, 2014). Consequently, those MSMEs which are small by structure and focus on producing cannot obtain the same financing under similar conditions. In the same time, regarding the banks' lending policies, there is no comprehensive, unified policy regarding MSME financing in the West Bank, and the lending policy differ from one bank to another (Sultan, 2014).

2.9.1 The Role of Banks in Financing Palestinian MSMEs

It's vital to state that even though the banking sector undoubtedly plays a vital role in financing MSMEs in Palestine, although its contribution may not fully address the diverse needs and challenges these enterprises face.

Table 2.2: Data of the Palestinian Banking Sector 2016–2020 (USD Billion)

Years	Total Assets of Banks	Total Deposits	Total Credit Portfolio	Total Credit MSMEs	Percentage
2016	14.2	11.7	6.9	1.0	14.5%
2017	15.9	13.1	8.0	1.4	17.5%
2018	16.1	13.3	8.4	1.4	17%
2019	17.9	14.8	9.0	1.3	14.4%
2020	19.9	16.5	10.1	1.1	11%

Source: PMA Database, 2021.

The main financial metrics are addressed in this table as a comprehensive overview of the banking sector in Palestine from 2016 to 2020. For example, these metrics include total assets, total deposits, total credit portfolio, total credit to MSMEs, and the percentage of MSMEs. Credit from the total credit facilities, it's noted that total assets and deposits were remarkably grown and the total credit portfolio was significantly increased. Nevertheless, the MSMEs' credit of total credit facilities, in percentage, has seen a decline, particularly in 2020, despite the total growth.

2.9.2 Islamic Bank MSMEs in Palestine

According to Migdad (2017), banks are fundamental pillars of modern economic systems, playing an important role in the economies of countries. In Palestine and other Muslim countries, many residents refuse to deal with traditional banks, which gives Islamic banks an opportunity to act as financial intermediaries due to the rejection of usury, speculation, and illicit transactions. Migdad argued that Islamic banks have provided an alternative that meets the needs of conservative Muslims and non-Muslims seeking a new or better alternative financial system.

According to PMA (2020), Islamic banks contributed 2.59% to MSME funding in the Palestinian banking system.

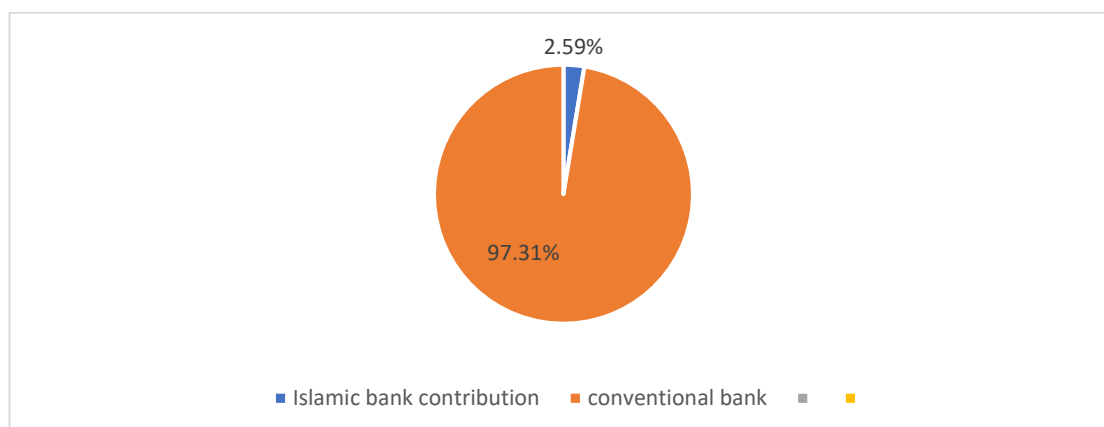


Figure 2.11: Islamic Banks Contribution in MSMEs Funding

Source: This figure prepared based on data adapted from PMA, 2020.

Islamic banks allocate 12.61% of their total funding to MSMEs. This may seem adequate in some cases, but it is insufficient because MSMEs make up 95% of the Palestinian economy (PMA, 2020).

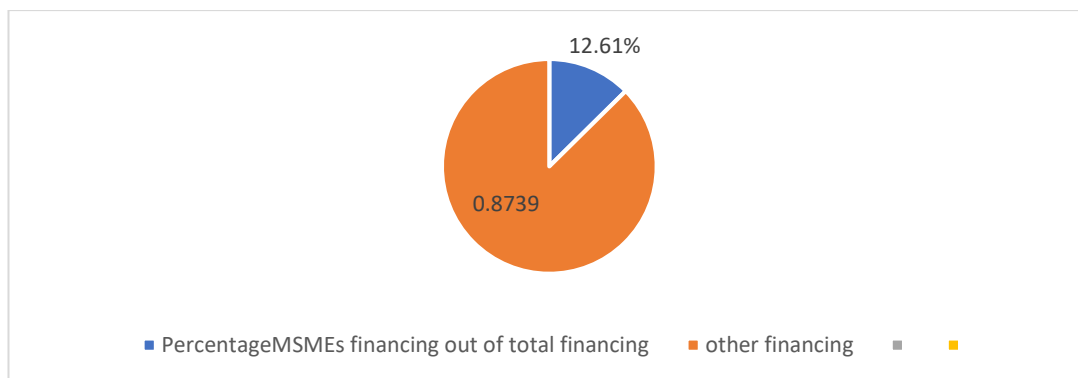


Figure 2.12: Islamic Banks Allocation Funds

Source: This figure prepared based on data adapted from PMA (2020).

Financing MSMEs in Palestine by Islamic banks is a restricted performance. Huda (2012) and Abdul-Rahman (2010) state that the lack of funding is one of the most noteworthy impediments for MSMEs, which limits their ability to expand and be competitive.

Islamic banks play a restricted role in financing MSMEs in Palestine. In 2020, according to the Palestinian Monetary Authority (PMA), Islamic banks contributed 2.59% to MSME funding in the Palestinian banking system (PMA, 2020). Islamic banks allocate 12.61% of their total funding to MSMEs. This may seem adequate in some cases, but it is insufficient, given that MSMEs make up 95% of the Palestinian economy (PMA, 2020).

2.9.3 The Role of Islamic Banks in Financing Palestinian MSMEs

The role of Islamic finance in promoting economic growth and stability is decisively influenced by the participation of Islamic banks in financing MSMEs. However, the current contribution of Islamic banks in this sector appears limited. The share of MSMEs provided by Islamic banks in the total financing of the Palestinian banking system (conventional and Islamic) is considered relatively low, amounting to 2.59%. (Hanini, Erekat, and Bawab, 2021).

2.9.4 Microfinance Solutions for MSME Financing

According to Rudrabatla, Roy, and Kumar (2015), society needs microfinance institutions (MFI), especially for low-income groups and MSMEs that do not have

access to financial services from banks, Microfinance institutions are dedicated non-bank agencies offering financial support to low-income populations.

Strengthening MSMEs can be accomplished by providing microcredit through microfinance institutions (Anwar et al., 2023). In today's world, the microfinance revolution is making waves in developing countries. Bel Hadj Miled and Ben Rejeb (2018) study have shown that microfinance serves as an effective means of reducing poverty in developing countries. And they argued that if microfinance is carefully implemented and managed, with services tailored to the needs of business actors, it can have a positive effect not only on business owners but also on broader community.

According to Bhuiyan et al. (2012), MFIs aim to (a) improve society's access to microscale funding, (b) Support economic growth and enhance the productivity of local communities, and (c) Raise the income and welfare levels of the community, especially for the poor and economically disadvantaged.

According to Morrar and Abdel Razeq (2021), Microfinance institutions (MFIs) began operating in Palestine in the 1980s as non-governmental organizations (NGOs) to address the significant funding gap created by the closure of banks in the West Bank and Gaza Strip by the Israeli occupation authorities. There was no special, unified legislation regulating the work of micro-financing institutions in the Palestinian territories. Either the legal form that the institution took for itself in accordance with its basic systems or its founding contracts was the standard in determining the applicable law. It was divided into two basic types: charitable and private non-governmental associations, whether national or branches. International agencies or bodies, which is the prevailing trend, in addition to for-profit companies

At that point, MFIs, significantly, helped foster production and employment, fight poverty and stimulate development. With the purpose of providing microfinance service to the poor and marginalized groups of people, most of MFIs were supported from local and international NGOs

Microfinance Institutions in Palestine play an essential role in supporting MSMEs financially. Table (1.4) outlines data regarding the role of microfinance institutions in supporting of MSMEs They constitute 38% of the of microfinance institutions financing portfolio. This percentage, especially when compared to the contributions of

commercial and Islamic banks within the banking system, is remarkable (Isfianadewi, 2024).

Around 84% of the active outstanding loan portfolio of MFIs, which totaled USD 249.8 million, concentrated in the West Bank and 16% of which in the Gaza Strip (PMA, 2020). Unlike the banking sector, MFIs focuses on underprivileged or low-income populations and non-profit organizations, leading to more flexible and less strict guarantee requirements. The microfinance sector in Palestine is still being dominated by non-Governmental Organizations (NGOs) primarily funded through donations, and with only a limited number of commercial banks offering microfinance services (MAS, 2010).

2.9.5 Challenges Encountered by SMEs in Obtaining Bank Financing

As claimed by a 2017-World-Bank report, owing to limited public information which plays a role in assessing creditworthiness, SMEs face substantial financing barriers in accessing bank financing. Large banks often discourage relationship lending, which relies on personal interactions, in addition to collateral requirements and weak institutions further restrict SME loans. Another barrier as Bbenkele (2007) argued, SMMEs especially those from rural areas have a limited understanding of the services offered by banks and the bank loan procedures.

Prihantoro and Nurhaci (2020) debate the challenges MSMEs face as a result of collateral requirements which includes limited access to financial institutions and the inability to provide collateral, and administrative inefficiencies, and, hence, these collateral requirements act as a key factor to obstacle financing, which eventually limits the growth and development of MSMEs. As reported from the World Bank (2018), lenders are reluctant to accept movable assets as collateral, which is a significant obstacle for SMEs to access finance. While larger firms and enterprises possessing fixed assets are not excessively affected as SMEs due to the inadequate legal and institutional protections which govern secured lending. Undoubtedly, this challenge is worsened by banks' perception of small enterprises as higher risk and costlier to service relative to loan.

Not to mention that small enterprises report encountering more business challenges on a constant basis compared to their larger counterparts. The World Bank Enterprise Survey covering over 45,000 enterprises across 196 countries reveals that access to

finance is identified as the top constraint. (World Bank, as cited in European Journal of Accounting, Auditing and Finance Research, 2016).

Table 2.3: Business Obstacles Faced by Small Enterprises Compared to Larger Enterprises

Top three reported constraints	Small	Medium	Large
Access to finance	1	1	3
Electricity	2	2	1
Informality (refers to a lack of formal structure, rules, or official processes)	3	3	
Tax rate			
Skills			2

Source: Adapted from World Bank, as cited in European Journal of Accounting, Auditing and Finance Research (2016).

In the Palestinian context, several authors have highlighted the challenges that Palestinian MSMEs encounter. Qubbaja (2019) mentions that the biggest barriers for Palestinian MSMEs include collateral demands, insufficient business support, lack of access to information, and excessive loan interest rates which affect their ability to access finance.

In his work *Towards Policies that Stimulate Adequate Financing to Small and Medium Size Enterprise*, Abdel Karim, (2010) discussed the challenges Palestinian MSMEs come across in accessing bank loans. The different barriers faced by these enterprises are highlighted in the following reasons for not obtaining these loans

- a) Lack of management experience: He found that 11% of this problem refers to the lack of management experience. For this reason, inadequate management experience can prevent entrepreneurs from effectively presenting their case to financial institutions to obtain loan approval.
- b) Lack of financial information: He found that 18% of the reasons for small and medium enterprises not obtaining financing are due to the absence of financial information. In order to prove their creditworthiness and ability to repay lenders, MSMEs may face such obstacle without acquiring proper documentation and reporting systems.
- c) Lack of collateral: He found that 26% of the reasons for small and medium enterprises not obtaining financing are due to lack of collaterals, especially the

ones which are freshly starting or with limited assets finding it difficult to meet collateral requirements which prevents their access to financing.

- d) Fear of bankruptcy: He found that 11% of the reasons for small and medium enterprises not obtaining financing are due to fear of bankruptcy. Obviously, concerns about failure and bankruptcy can discourage MSMEs from seeking external financing.
- e) Religious reasons: He found that 34% of the reasons for small and medium enterprises not obtaining financing are due to religious reasons which impact their willingness to seek external financing options.

It should be noted that addressing these challenges entails solutions that involve financial education, improved access to financial information, alternative collateral options, risk mitigation strategies, and culturally sensitive approaches to banking and finance. In the case of understanding and addressing these barriers, policymakers can better support the financial inclusion and growth of Palestinian MSMEs.

2.10 National Financial Inclusion Strategy to Enhancing Access to Finance by Palestinian MSMEs to Finance

As part of its financial inclusion efforts, the Palestine Monetary Authority (PMA) joined the Alliance for Financial Inclusion (AFI) in 2010 and endorsed the Maya Declaration. Subsequently, to enhance financial accessibility, the PMA and Palestinian Capital Market Authority (PCMA) entered into an agreement to establish the National Financial Inclusion Strategy (NFIS) for 2018-2025 (Palestinian Capital Market Authority, 2018).

The strategy for the period of 2018-2025 was formulated based on the findings of a financial inclusion study conducted by Palestine Monetary Authority (2016) which found that a general decline in financial inclusion rates taking into consideration the gap across various demographics and regions was revealed. Moreover, this study unfolded challenges on both the demand and supply sides of financial inclusion. Thus, financial illiteracy, religious considerations, poverty, unemployment, regulatory and legislative constraints, delayed and costly legal procedures, and inadequacies in the judicial system regarding financial matters, informal financial sector competing with the formal sector and the absence of efficiency in non-financial technological infrastructure are all forms of such challenges. Another challenge was also identified

in the study: The incompatibility between offered financial services and products, and the needs of certain specific demographic groups; women, limited-income individuals, farmers, and MSMEs.

Subsequently, in early 2019, the Technical Committee commenced creating three working groups of specialty which focused on the extents of Entrepreneurship and SMEs, Innovative Financial Products, and Consumer Empowerment.

The consequence of this effort has brought recent reforms in the Palestinian financial sector. In particular, these reforms seek to enhance financing opportunities for MSMEs. Outstanding initiatives outlined in the national financial inclusion strategy (NFIS) include:

- a) **Regulatory Improvements:** It develops financial and legal infrastructure to help MSMEs access the financial services easily, thus, administrative barriers are reduced.
- b) **Financial Education and Awareness:** It implements programs to enhance financial literacy among MSMEs, where owners receive assistance in understanding financial management and credit options.
- c) **Microfinance Reforms:** Through which the microfinance sector support MSMEs by means of offering better access to funding and financial services designed to meet their needs.

2.11 Chapter Conclusion

With an actual focus on the Palestinian context, this Chapter provides a comprehensive overview of the vital role performed by MSMEs in the global economy. Globally acknowledged, MSMEs are vital engines of economic growth, innovation, and employment, contributing significantly to GDP and social stability.

The sector faces a number of challenges, as of economic contractions, limited access to finance, and high reliance on personal savings. Not to mention the fact that financial inclusion is proving to be a key factor for the growth and sustainability of MSMEs, substantial obstacles still exist, such as low financial literacy, religious considerations, and regulatory constraints.

It should be noted that the efforts made to boost financial inclusion through the National Financial Inclusion Strategy (NFIS) shed the light on the necessity for

creating initiatives as regulatory improvements, financial education, and tailored microfinance reforms. Notwithstanding, the banking sector still contributes poorly to MSME financing, mainly in the context of Islamic finance, which offers alternative but insufficiently unexploited financial instruments.

To conclude, the chapter identifies the critical need for improved financial access and support for MSMEs in Palestine. Addressing these challenges through targeted policies and enhanced financial inclusion strategies is necessary for leveraging the full potential of MSMEs in driving economic development and social progress in Palestine.



CHAPTER III

WORKING CAPITAL AND ITS FINANCING

METHODS

3.1 Introduction

In finance, a distinction is made between two views on working capital: Gross working capital represents the total current assets listed on the balance sheet. On the other hand, the difference between current assets and current liabilities in the balance sheet is known as net working capital. This concept is based on a simple accounting principle that compares the institution's liabilities due in a financial period with the institution's assets due in the same financial period. In other words, Zoair (2013) Working capital is a financial metric indicating the accessible funds for daily operations within a business, organization, or entity. A company's working capital reflects its readily available assets for operational expansion.

Working capital, together with fixed assets like plant and equipment, is a key element of operating capital. According to Baker et al. (2023, p. 18), working capital refers to corporate funds used to finance day-to-day operations, and proper Effective WCM is essential for financial stability and business success, striving to enhance operational efficiency through the careful management of financial growth, returns, and liquidity, through efficient management of cash, receivables, inventories, and payables, managers can sustain smooth business operations and enhance financial performance.

Managing working capital efficiently is essential for forecasting a firm's success, profitability, and market value, businesses primarily aim to maximize profitability while ensuring sufficient liquidity (Adelodun, 2024). Since every for-profit organization is established to generate economic benefits, it is crucial to deepen our understanding of firms' liquidity and profitability (Hidayat & Dewi, 2023).

3.2 Working Capital Management for Business Continuity and Financial Stability

Baker et al. (2023) emphasize that businesses need to consider having satisfactory cash reserves to maintain themselves through surprising circumstances and operations. In

addition, they have emphasis on the role that effective management practices play in ensuring operational continuity and adaptability, stating that working capital confirms that a company has sufficient funds to meet its short-term obligations and maintain the daily operations.

Suitable working capital not only allows the company to pay suppliers, meet payroll, pay utility bills and meet other immediate financial needs, but also provides the necessary liquidity to keep business operations running smoothly. In means of improving cash flow and gain control over personal finances, Ramsey (2007) highlights the importance of cash flow management in order to gain financial stability, and he recommends to use budgeting, emergency funds and debt reduction strategies. Ramsey emphasizes that the road to achieve wealth is through prioritizing cash flow and avoiding redundant debt. They also state that effective working capital management helps maintain a healthy cash flow position.

3.2.1 Working Capital Management and Cash Shortages

Cash shortage is the lack of liquidity necessary to meet current obligations and operational needs. The main reason for cash shortage is lack of synchronization of cash flow. Cash flow refers to the movement of money into and out of a business. Cash flow is affected by several factors, such as sales volume, payment terms, and expenses, inventory levels, and credit policies. If a business's cash outflows exceed its cash inflows, it will have negative cash flow. This can lead to liquidity problems, such as difficulty paying suppliers, employees, taxes, debts.

By optimizing cash, receivables and inventory, a company can ensure a balance between cash inflows and outflows. Proper working capital management can prevent cash shortages, minimize the need for external financing and reduce the risk of financial distress, inadequate management of working capital can trigger cash flow problems, escalate expenses, and result in missed opportunities. Overtrading due to insufficient liquidity may threaten financial stability (Adelodun, 2024).

3.2.2 Working Capital Management and Business Relationship

Some writers discuss how effective financial management impacts business relationships. As Porter (1998) emphasizes, the fact that effective working capital management, including management of cash flow, inventory and payables, can make relationships tight with suppliers and creditors. While practicing good payment,

companies build trust and negotiates positive terms with suppliers and creditors, He also mentions that a positive working capital position is preserved, the relationships with suppliers and creditors are strengthened. In addition, paying suppliers on time, companies' credit worthiness is improved, and as a result, trade terms may improve, and they may get discounts or favorable pricing agreements. Having Respectable relationships with creditor's means that the company constantly have access to credit whenever needed.

3.2.3 Working Capital Management and Profitability

Bragg, (2002) highlights the importance of effective working capital management in optimizing profitability. He provides insights into key financial ratios related to working capital, such as the current ratio and cash conversion cycle, and offers strategies for improving profitability through the management of cash flow, inventories and receivables. He points out that efficient working capital management has a positive impact on a company's financial performance and profitability by minimizing capital tied up in unproductive assets.

3.2.4 Working Capital Management and Risks

Hull (2018) discusses the effect of working capital managements on risk, he emphasizes that maintaining adequate working capital is essential for managing liquidity risk and ensuring a company's financial stability, and he mentions that maintaining a healthy working capital position serves as a buffer against unforeseen events or economic downturns, which allows the company to be flexible coping with surprising expenses or dealing with instabilities in customer demand. Hence, when the company has sufficient working capital, it can reduce financial risks and increase its resilience.

3.2.5 Working Capital Requirements

Discussing the factors that influence a company's working capital requirements Rosenbaum and Gitman (2020) mention that, at first, sales growth and seasonality have an impact on the needs of working capital, second, credit policies, inventory management and accounts receivable management enhance the timing and amount of cash flows, and finally, industries with special characteristics, such as seasonality or unpreserved goods, may have definite working capital needs. Not only that, supplier relationships and legal factors also have an effect on the defining process of working

capital needs. Considering such factors and starting to practice effective management can, taking these factors into account and implementing effective management practices can improve working capital needs.

3.2.6 The Importance of Working Capital Management

The management of working capital takes up a significant portion, and potentially even the bulk of daily financial management efforts, because of the extensive range and diverse nature of its components. According to Sanchez (2016), highly competitive 21st-century markets require firms to adopt flexible and dynamic financial management strategies to optimize financial decisions that maintain sufficient liquidity for supplier payments, Salaries and benefits, and leverage management, so that it is important for companies to guarantee that there is enough cash available to meet its short-term obligations.

There are several reasons that make it necessary to observe professional management of working capital and to ensure that it maintains adequate cash to handle its short-term liabilities, including the most important ones

1. Enterprises with well-structured working capital policies optimize their operational and financial decision-making, resulting in improved financial outcomes and greater profitability (Ledinscak et al., 2021).
2. Proper working capital management helps firms mitigate the risk of liquidity shortages (Ledinscak et al., 2021).
3. Due to the continuous and ongoing changes in both working capital and current liabilities in response to changes in sales levels, working capital management is characterized by movement and change. This constant change is perhaps the most important feature of working capital, as the need to invest in working capital rises and falls depending on seasonality and sales activity.

3.2.7 Managing Working Capital

The efficient management of an enterprise's current assets and liabilities is considered the fundamental idea behind working capital; aiming at improving financial statement and mitigating risks such as bankruptcy or overcoming probable financial challenges which could appear (Sogomi et al., 2024).

Panigrahi (2024, p. 5) states that the primary goal of working capital management is to strike a balance in current asset investment, as both over-investment and under-investment can have adverse effects. Shall you borrow money for your business, or shall not? Obviously, a simple answer cannot be found. Whether it is for filling the gaps of transitory cash flow or meeting short-term working capital needs, eventually, most business owners arrive at a juncture where borrowing money becomes a necessary consideration. According to Zoair (2013), debt can indeed serve as a valuable tool for management and growth, but borrowing comes with associated costs, and Excessive or mismanaged debt can severely impact a business's financial health, limiting growth and increasing financial risk and become a noose around the neck of an unsuspecting business owner.

3.3 Policies of Working Capital Management

According to Nazir and Afza (2009), the working capital management policy is concerned with current assets, investment decisions, along with the adopted and financing policies that can determine the extent of their impact on firm performance.

The discussion on financing patterns of current assets points out a conflict between the short-term and long-term sources of finance, this conflict arises as a consequence of different cost of financing and different risk associated with them.

The determining policies for managing working capital based on the levels of risk they entail. And the risks primarily stem from two sources:

- Proportion of Investment in Working Capital: is a ratio that shows how much money is invested in current assets (such as cash, accounts receivable, inventory) compared to short-term liabilities that need to fulfill in the near future. This ratio reflects the company's ability to finance its daily operations and ensure the availability of the necessary liquidity to cover its operational needs. Managing working capital effectively by adjusting the proportions of its components is important to the financial position of business for all industries (Ganesan, 2007), and it's important to mention that it have inversely related to returns. As a greater allocation to current assets generally leads to reduced profitability for the institution due to the modest returns associated with these assets. This leads to a reduction in the overall return on assets. Returns on cash balances are very modest, approaching zero, returns on receivables are low, and returns on marketable securities are limited. The management of working

capital illustrates the delicate balance between risk and return in financial strategy (Samiloğlu & Akgün, 2016). There is a negative relationship between working capital investment and the risks the institution encounters, especially liquidity risks and sales decline risks. Enhancing the investment in current assets mitigates the likelihood of insufficient liquidity to meet financial obligations and also Reduces the likelihood of inventory depletion and the failure to satisfy customer requests.

- Pattern of Financing Current Assets: This is the second source of risk. It refers to the financing strategy applied for the investment and use of current assets, whether the source is long-term or short-term. The type of financing is inversely related to both returns and risks. Long-term financing implies higher financing costs and therefore lower returns, as well as lower current liabilities and significantly higher turnover ratios with very low liquidity risks. On the other hand, short-term financing often results in higher returns and greater risks, depending on the scale of investment in working capital and its financing structure

- Types of policies for managing capital structures there are three common policies, aggressive, conservative, and matching, each with unique features and consequences. The choice among these policies depends on growth objectives, industry dynamics, and company's risk tolerance. Working capital as one of components of capital structures is affected by the type of capital structures policy adopted. Van Horne (2001) describes different policies available for companies to utilize. According to Van Horne, there are three primary strategies:

- Conservative Policy: Minimizing risk and maintaining financial stability are key priorities of the conservative working capital financing approach, characterized by significant increase in turnover ratio with a decrease in liquidity risks and increase in total investment in working capital, a decrease in short-term debt levels, a decrease in the return on assets and equity.

- Moderate Policy: This approach involves ensuring that the maturity of a company's assets is consistent with its liabilities, characterized by moderate investment in working capital, a balance between short-term and long-term debt, a limited decrease in financing costs, a limited increase in return on assets and equity, and a high turnover ratio This policy reduces the risk of liquidity problems and helps ensure that the business can meet its obligations as they come due.

- **Aggressive Policy:** Such policies involve maximizing risk, which in turn creates opportunities for accelerated growth, characterized by using short-term financing to finance current assets and part of fixed assets, a decrease in the total investment in working capital (current assets), increased of short-term financing a decrease in financing costs, an increase in return on assets and equity, and a significant decrease in turnover ratio with an increase in liquidity risks in the institution. Given the high level of risk, effective business insight and deft handling of finances are critical.

3.3.1 Investment in Working Capital

A number of elements impact the investment in working capital in terms of its amount and type, including the nature of the company's activity, the operating cycle, the volume of sales, the inventory policy and the credit policy towards customers. Therefore, there is no objective method to estimate the proportion or amount of investment in working capital. The decision is based on the relationship between return and risk, which characterizes the entity's management approach and reflects its risk appetite: the risk of diminishing returns if a high level of working capital is maintained, or the risk of a liquidity shortfall if a low level of working capital is maintained.

Although risk appetite is a management behavior that varies from one manager to another and from time to time, it is not possible to say of an ideal level of risk to which management can aspire.

However, it is possible to set target working capital values according to simplified models, such as the approach of referring to the average of similar industries in the market or approach of the relationship between the amount of working capital and the company's revenues, where working capital is estimated as a percentage of revenues.

3.3.2 Models for Determining Optimal Levels

There are various models to determine preferred levels for some components of working capital, like cash balances, accounts receivable and inventories. This is done by comparing the benefits and costs of maintaining a certain level for each of these components.

The level of cash balances is adjusted by financial management through borrowing and buying and selling securities according to the company's cash flow expectations. Mathematical models have been developed to determine the optimal cash balance.

The following are the best-known models to determine the optimal cash balance:

- a. Baumol Model: according to Moraes and Nagano (2013), This model is based on simplified assumptions, the most important of which are that cash flows (payments) occur at equal rates over time, that cash balances can be increased immediately to the level required for the entire period, that the company can estimate the total cash requirements for the period under consideration and that the cash flows will occur with certainty. The model assumes that the cost of holding cash is the interest on cash balances that the entity loses and that the cost of holding cash is the transaction cost that the entity incurs when it sells securities to obtain cash
- b. Miller & Orr Model: The assumptions of the Baumol model regarding the certainty of cash flows are unrealistic, as cash flows occur randomly. Therefore, & Miller Orr developed a probabilistic model that assumes the desired level of cash balance requires an upper limit and a lower limit, with the lower limit close to zero (Moraes & Nagano, 2013). When the cash balance falls to the minimum threshold, the company sells securities conversely, if cash balances rise to the upper level, the company purchases securities to reduce the cash balance to the lower level.

3.3.3 Sources of Working Capital Financing

Short-term financing, often called working capital financing, addresses immediate financial needs. It is usually needed because cash flow in the business is irregular and is often considered when you need funds quickly to take advantage of a fleeting opportunity or to cover unexpected costs. For most businesses, especially small and medium-sized ones, operational decisions are influenced by their internal capital and their ability to raise short-term external capital. According to Banos-Caballero et al. (2014). Working capital can be financed by a firm using either short-term or long-term financial resources connected with which each source of financing has its own costs and benefits. The manner, therefore, in which working capital is financed has an impact on the organization performance. Brealey et al. (2011) emphasize the importance of efficient working capital financing in their book Principles of Corporate Finance, and the text explores various methods in this regard, including:

- a. Short-Term Debt: enterprises use bank loans, lines of credit, and commercial paper in order to obtain flexible financing for working capital, by doing so, they may employ more interest costs and need regular refinancing.
- b. Supplier Credit that allows enterprises to extend payment terms and use their funds as working capital financing.
- c. Internal Financing: Companies can finance their working capital internally from retained earnings this avoids interest costs and dependence on external sources.
- d. Equity financing: New shares can be issued to meet long-term working capital needs. However, this dilutes existing ownership and may not be suitable for short-term needs

Briley emphasizes that choosing the choice of a working capital financing method depends on factors such as the company's financial condition, cost of capital, creditworthiness, and ability to obtain external financing, and risk tolerance. It also stresses the importance of maintaining a balance between different funding sources, taking into account the trade-offs between cost, flexibility and risk.

3.4 Conventional Banking Methods for Short-Term Working Capital Financing

Since MSMEs face obstacles in acquiring bank financing for their working capital need as this kind of financing is vital to their performance, operation, survival and development (Vasilescu, 2014). Compared to the various sources of short-term working capital financing available to businesses, short-term financing from commercial banks are the most common and important source of such funds in the business (Mathur, 2007).

In his book, Principles of Managerial Finance, Gitman (2010) explains various sources of working capital financing and their features. He mentions examples of which as bank loans, lines of "credit, trade finance facilities, overdraft facilities, cash management services, and supply chain financing, which are all highlighted as important financing options.

- a) A type of working capital loan is a short-term loan, which is a fixed cash payment an organization can use to cover daily operating expenses, such as wages, rent, and debt repayment, and to finance activities such as marketing, sales, when liquidity is insufficient.

- b) Credit lines offer flexibility and allow businesses to obtain funds as needed, with interest only on the amount borrowed. Some empirical studies indicate that although lines of credit serve as a guarantee of liquidity, they are not unconditional guarantees, especially for companies with low cash flows, as Nikolov, Schmid, and Sterry (2019) point out.
- c) Trade finance refers to short-term credit offered by banks to clients for international trade (Gyawali, S., 2022). Trade finance facilities support domestic and international trade through credit letters, bank guarantees, and export/import financing.
- d) Business owners can withdraw funds using their overdraft facilities or revolving credit up to an approved limit, but interest will be charged on the overdrawn amount. Compared to loans, this is a revolving credit agreement that requires no deadline. The lender is the only party capable of setting the credit limit, which is the maximum amount you can borrow.
- e) Cash management services, as cash pooling and automated payments, help enhance the effectiveness of working capital.
- f) Financing solutions for supply chain enhance working capital within the supply chain by enabling suppliers to receive longer payment terms, however, they must ensure early payment through bank financing.

3.5 Working Capital in Islamic Thought

There are no specific concepts for working capital in Islamic economic and financial thinking. Instead, the same general concepts are used as in traditional thinking. However, working capital in Islamic thought is subject to Shariah regulations regarding its financing methods and instruments, as well as regulations on the exchange and trading of working capital components in the market.

Shariah working capital financing, as noted by Ikatan Bankir Indonesia (2016, as cited in Syahid & Noviarita, 2022), is a short-term financing solution offered to companies to meet their working capital needs, in accordance with Shariah principles.

Several solutions have been proposed to address working capital financing issues by utilizing common Islamic banking instruments such as Murabaha, Mishawaka, and Ijarah. Recently, there have been several attempts made to employ technological

developments on these common instruments some of that comprehensive financing platform for factoring and supply chains, in addition to Murabaha line of credit, musharakah line of credit and service Ijarah.

3.5.1 Impact of Shariah Commitments on Financial Policies and Cash Holdings

As the most liquid asset, cash is essential for the smooth functioning of a company's operations. According to Subing and Yalin (2023), Cash is a very important asset for every company because it can affect the company's liquidity and show the ability of the company to meet all of its commitments on time.

Cash is vital for ensuring smooth daily operations and for backing the company's investments, the cash that remains within the company is termed as cash holdings. Cash holdings refer to cash on hand or funds that companies can use to invest in physical assets (such as property, factories, and equipment) and distribute to investors. Even with significant tangible assets or receivables, a company can face challenges if its cash reserves are depleted, it may result in bankruptcy or the loss of important growth opportunities.

Therefore, companies aim to preserve a portion of cash to ensure protection to prevent short-term liquidity issues while making payments or investments. The cash in the company's possession can be employed to support its operational needs. Cash holdings are crucial as cash is required to meet all of the company's needs to allow the company's operational activities to keep running efficiently, including inventory purchases, debt payments, supporting company operations, and other needs.

On the other hand, holding too much cash may result in financial losses for the company because the company cannot achieve optimal levels of profitability, namely the profit that should be obtained by the company with the use of too much-stored cash to carry out business activities, This situation is referred to as idle funds, which are funds not being utilized for investments, where people keep their earnings or profit idle and out of circulation and as a result, it does not earn interest or investment returns. Idle funds refer to money that is not placed in interest-bearing accounts or investment vehicles, that is, are not participating in the economic markets. These funds are commonly considered as "wasted" funds since they do not consider important in any manner of production and earning income. According to Alam (2022), Money that does not work is idle money. Just as we call a man who does not work an idle man,

funds must also work to earn money. From a financial point of view, idle money is a waste of money. Holding money in this way has a major and meaningful effect on economic productivity, particularly in terms of strategic investment and forecasted growth (Sakanko, et al., 2019).

Shariah-committed companies have limited access to external funding sources than non- commitment companies as a result of the constraints enforced by Shariah rules status that influence their financial and investment choices (Febrianti, Sari, & Usman, 2024). This drives Shariah committed enterprises to maintain a higher level of cash due to the inadequacy of traditional debt instruments and usurious financing to confront the lack of liquidity.

This discussion leads to the question of whether adherence to Islamic principle leads enterprises to pursue certain financial policies that may not be consistent with the principle of maximizing shareholder wealth. However, recent studies suggest that maximizing shareholder wealth may not always be seen as the central objective of corporate governance. (Loderer et al., 2010).

3.5.2 Speed of Adjustment and Shariah Compliant

Theoretically, Companies should consistently manage their debt to remain at an optimum level. However, due to some market imperfections, firms will not be able to maintain their debt at optimum level. Companies strive to achieve the optimum by adjusting their debt or equity, either reducing or increasing them whenever possible. The rate at which they attain the optimum leverage is termed as Speed of Adjustment (SOA). The higher a firm's SOA, the faster it reaches its optimum debt ratio (Supra et al., 2016).

There must be adequate availability of liquid assets. The problem of liquidity is either far too high or too low. Excess cash surpluses must be invested in profitable projects, and cash deficits must be financed at a reasonable cost, otherwise operating deficits will occur (Hassan et al., 2013). As claimed by Opler et al, working capital policy- being either aggressive or conservative-, in addition to the distributed compensations, investment, and asset management play a major role in determining the amount of cash needed for companies to operate efficiently.

As it was observed by Alnori and Alqahtani in 2019 that Shariah-Compliant firms (SCFs) take longer to transform and get adapted to an optimal capital structure.

Furthermore, Alnori et al. (2021) demonstrated that the determinants of cash holdings differ between Shariah-compliant and non-Shariah-compliant firms, with the constraints dictated on Shariah-compliant firms affecting the level of cash holdings. The determinants of cash holdings impact the cash reserves of SCFs and result in different financing behavior.

Compared to their non-compliant firms, it was claimed by Alnori and Alqahtani (2019) that the limitations imposed by Shariah resulted in SCFs having fewer external financing routes. Furthermore, SCFs, due to financing limitations, tend to have lowered leverage compared to Non-SCFs. This creates a gap in the financial supply and higher adjustment expenses. In their research, Bugshan et al. (2021) found that Shariah adherence has an important impact on cash decisions. They shed light on the determinants of cash holdings of Sharia committed firms, they identify financial leverage, profitability, capital expenditure and net working capital as key factors influencing cash holding decisions. On the other hand, for companies that are not compliant with Shariah, financial debt and net working capital play key roles in determining cash holding.

3.5.3 Shariah-Commitments and Capital Structure

Capital structure represents a fundamental aspect of corporate finance. However, the specific field of modern Islamic finance is a relatively new field offering an alternative capital structure, which is mainly composed of three types of financing: equity-based, sale-based/debt-based, and Ijara/lease-based. (Hashim et al., 2017, as cited in Musse et al., 2021).

(Ross et al., 2010, as cited in Musse et al., 2021) Companies that don't abide to Sharia are believed to have more flexibility regarding debt-equity decisions, balancing tax benefits in relation to financial distress costs.

Bughsan and Bakry (2023) indicated that companies that are compliant to Shariah have lower leverage ratio when compared to non-compliant ones. Although both types of companies have optimal capital structures, it takes the Shariah-compliant ones longer to adjust because of the market's imperfections that impact both types of companies. As Shariah-compliant companies are committed to Islamic principles that limit the types and extent of leverage being used, this will result in impacting the external funding opportunities that could be available to Shariah-compliant companies

3.5.4 Barriers to Utilizing Conventional Financing for Shariah-Compliant Enterprises

There are certain challenges in utilizing the traditional working capital financing tools being faced by the Shariah-compliant financing since there are certain financial activities that are prohibited according to the Islamic principles including: interest (Riba), uncertainty (Gharar) and investments in forbidden practices (Haram). In his book, *Understanding Islamic Finance* (pp. 199-203), Ayub (year) offers a complete examination of the practices of Islamic Finance. Ayub discusses challenges encountered by Shariah-compliant businesses when they look for traditional financing tools for working capital. And highlight the Prohibition of interest, or (riba) as one of the key challenges in Islamic finance. There are some traditional financing practices that require payment or receipt of interest such as loans, overdrafts or lines of credit, and these are prohibited in Islamic finance. This results in having a significant challenge for Shariah-compliant firms that look to fund working capital via traditional means. So, they resort to financing methods which are Shariah-compliant like Murabaha line of credit, musharakah line of credit and Ijarah service.

All loan structures, Ayub argues, don't comply with Shariah rules. Such structures may involve interest charges in addition to interest-based penalty clauses, or collateral associated with non-Islamic assets.

3.6 Alternative Islamic Banking Instruments for Working Capital Financing

Islamic banking instruments have emerged as potential alternatives to conventional financing methods, offering companies Shariah-compliant solutions to meet their financing needs. (Badeeu & Muneeza, 2023) argued that while the objective of Islamic finance, similar to conventional finance, is aimed at meeting market economic needs, It is expected that Islamic finance will offer more, primarily through its alignment with the objectives of Maqasid al-Shariah.

The Islamic bank uses Shariah-approved contracts to conduct business (Ismail and Tohirin 2010). The banks offer financing instruments that are tailored to the needs of the customers. Among these instruments offered by Islamic banks are those that can be utilized for working capital financing. In his book, *Understanding Islamic Finance*, Ayub emphasizes tools including Murabaha as an applicable solution for companies to utilize for accessing working-capital ingredients while compiling with Shariah rules.

The effect of these tools on working capital elements attempts to integrate financing practices with Shariah rules and meet the needs of Shariah-compliant enterprises. However, this specific influence and efficiency may differ based on some elements such as: the details of the tools, company's characteristics, market conditions, and regulatory setting. Besides, Dr. Ayub addresses economic feasibility, flexibility to adapt to changes, legal compatibility, consumer demand and cooperation between Islamic and conventional financial institutions.

Islamic methods of financing working capital suggest a variety of other possibilities to be used instead of conventional financial instruments. Such alternative methods not only intend to follow the Islamic principles; prohibit riba, interest, and focus on ethical and unbiased financial transactions, but also are designed to encourage risk sharing, discourage speculation and guarantee to conduct financial transactions in a socially responsible and ethical manner.

Ebrahim and Sheikh (2016) discussed Islamic debt instruments as alternatives to conventional instruments their potential as alternatives to conventional instruments, and they argued it is essential to systematically reform its financial intermediation framework in a way that overcomes the challenge of the modern age while aligning with the principles of Shariah.

In recent years, significant efforts have been made to promote innovation in Islamic finance methods some of it may suitable to working capital financing in somehow. The aim of these innovation is to satisfy the developing needs of businesses, improving the efficiency and effectiveness of Islamic financing and demonstrating the continuous efforts to progress the availability, proficiency, and variety of Sharia-compliant financing solutions. By combining Islamic principles with technological advances and innovative financial models, these solutions design provide businesses with more tailored and efficient options for working capital financing. The following are some of these instruments:

a) Murabaha: Murabaha, being the most prevalent and dominant instrument of Islamic working capital financing where it is widely used, is an important element in the financial statements of an Islamic bank (Moosa, 2023). Murabaha requires future payment for the purchase of inventory and other working capital needs.

In his book *Islamic Finance Contracts*, Kahf (2015) mentions corporate Murabaha lines of credit serving as a short-term financing option used mainly for financing working capital. Kahf also defines it as a master agreement between the bank and the corporate customer for a set of Murabaha transactions to be handled by the customer using the Wakalah structure for a set period and under a financial upper limit''(p. 377), the discussion that followed this definition outlines the general arrangements of this instruments, where the mark up is determined each time for each Murabahah transaction, the date of maturity of each Murabaha transaction is carried out under the framework of the master agreement, The master agreement also specifies the maximum amount for each Murabaha transaction, other Conditions that may be outlined in the master agreement include requirements for collateral and securities, permission is granted to the agent to sell to itself, provided that all conditions are in accordance with those specified in the master agreement, in addition to kind of goods and services. All these conditions should be permissible (Kahf, 2015, p. 377).

b) Islamic Revolving Credit Facility: Islamic revolving credit facilities are developed to act as substitutes to conventional revolving credit facilities. Subsequently, these facilities provide companies with pre-approved credit limits which can be used for working capital needs.

c) Musharakah Line of Credit: It is a type of credit facility provided by Islamic banks, where the bank provides capital jointly with the customer to finance projects or short-term needs. The Musharakah line of credit is a Musharakah contract on the basis of net equity in a balance sheet and a line of credit from the Islamic bank. It is basically a Musharakah with variable capital contribution. It is a Musharakah contract with a variable capital contribution from the Islamic bank and consists of the net amount of deposits and withdrawals from the Islamic bank (Kahf, 2015, p. 395).

d) Service Ijarah: The Service Ijarah model, a structure or model that supports the provision of financing for services. The service Ijarah financing product aims to provide financing to customers to meet their various needs, of a service nature. If you seek to obtain intangible necessities such as education, healthcare, and travel, Islamic banks can extend financial solutions for these requirements through what is known as 'Murabaha for services', in this arrangement, the Islamic bank first buys the service and then sells them to you (Abozaid, 2010, as cited in Kahf & Mohamed, 2017). The bank enters into agreements with a number of service providers, so that the bank rents

the required service directly from the provider, and then rents it to the customer on the basis of a sub-lease.

e) Islamic Invoice Financing: the process of invoice financing where companies sell their invoices to financial institutions at a discount to gain faster access to the invoice amount (Narayanam et al., 2022). As an alternative to conventional factoring, Islamic invoice financing gives the chance for businesses to sell their invoices to Islamic financial institutions to receive direct liquidity where the institution pays the value of the invoice upfront while taking the charge to receive the customer's payment. The basic idea behind invoice financing based upon Islamic principles is to keep it interest-free. For that purpose, the financing can be done using multiple Islamic financial instruments. Invoice financing based upon Islamic principles is usually carried out by means of three major shariah-based products: Murabaha, Musharakah, Salam (Mate Blog, n.d.)

f) Islamic Supply Chain Financing: The supply chain generally includes networks of channel partners, suppliers, organizations, and customers, which are generally part of the process involving goods, services, financial transactions, and information from production to consumption (Ab Talib & Sakalayan, 2020). According to BAFT, EBA, FCI, ICC, & ITFA, (2016), Supply Chain Finance is defined as:

The use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements, which can be enabled by a technology platform. (p.7).

Supply chain finance (SCF) is a set of technology-based solutions aimed at reducing financing costs and optimizing business operations for buyers and sellers involved in a sales transaction. SCF allows suppliers to leverage their accounts receivable as collateral, facilitating early payment for invoices from buyers. SCF helps mitigate the risks and expenses associated with trading activities, including currency fluctuations, delays in making payments, and quarrels over overpayment settlement.

The process of an SCF transaction consists of the following steps:

1. The buyer submits an order to the supplier.

2. The supplier delivers the requested goods or services and forwards an invoice to the buyer.
3. The buyer approves the invoice and submits it to the financier, who checks its details and offers the supplier an early payment option at a discount.
4. The supplier has the option to accept the early payment offer or wait for the payment on the due date.
5. The financier transfers the payment to the supplier in accordance with the agreed terms.
6. The buyer makes the payment to the financier by the due date.

As the public is more familiar with traditional supply chains, there is a common misconception about Islamic finance in the supply chain as a practical application rather than as a conceptual idea (Ahmed et al., 2022). Islamic supply chain financing as an alternative to conventional supply chain financing it is often referred, to approach uses Shariah-compliant financing principles in backing up businesses across various stages of the supply chain and enabling even cash flow and working capital management. Islamic banks are distinct from their conventional counterparts, as they are obligated to align with both Islamic Sharia provisions and traditional banking regulations, Islamic banks primarily focus on engaged in the purchase and sale of financed assets, making them more like commercial companies rather than operating exclusively as conventional financial entities, this makes its participation in the supply chain of the financed asset distinguish it from its traditional counterpart (Ahmed et al., 2022).



Figure 3.1: The key difference in the role of Islamic finance within supply chains compared to conventional models.

Source: Simulated diagram based on Ahmed et al. (2022).

A conventional financial institution does not participate in the functions and flows of the supply chain, but rather provides interest-bearing loans (Riba), which is strictly prohibited under Islamic law. To avoid usurious transactions, Islamic banks must adhere to the principles of Sharia, which require engaging in real economic activities, such as buying and selling. An Islamic bank performs the supply chain management functions related to buying and selling in the context of Islamic transactions, which makes it different from its conventional counterpart. As a result, an Islamic bank enters into the ownership flow of the financed assets within the supply chain, (Ahmed et al., 2022).

g) Tawarruq-Based Financing: It is a sales agreement where the buyer acquires an asset from the seller with a deferred payment arrangement, then subsequently sells the asset to a third party in return for immediate payment, for a price that is less than the deferred price (Khan et al., 2022).

Tawarruq is commonly used in Malaysia to create diverse Islamic banking product structures, the frequent application of Tawarruq in Malaysia's Islamic banking sector has faced criticism from Shariah scholars, and in other words, this indicates that there is a reservations among Shariah scholars regarding the permissibility of Tawarruq contract in Islamic finance (Ahmad et al., 2019). According to Resolution 179 (19/5) by the OIC Fiqh Academy, organized and reserved Tawarruq are considered impermissible.

It is not permissible to execute both Tawarruq (organized and reversed) because simultaneous transactions occur between the financier and the Mustawriq, whether it is done explicitly or implicitly or based on common practice, in exchange for a financial obligation. This is considered a deception, i.e. in order to get the additional quick cash from the contract. Hence, the transaction is considered as containing the element of Riba.

h) Fintech Solutions and Islamic Fintech Solutions: Fintech solutions have transformed finance when it offered advanced and tailored financing options through technology (Blakstad & Allen, 2018). The beneficiaries of these solutions are both consumers and banks as banks are encouraged to adopt cutting-edge technologies and improve effectiveness and efficiency.

Arner, Barberis, and Buckley (2017) debate how various financial sectors, such as working capital finance, are impacted. They also shed a light on the effect that fintech

innovations have on traditional financing models and the enhancing of efficiency, accessibility, and transparency in accessing working capital financing. Fintech could also increase the profitability, productivity, and reach of financial services through increased flexibility, personalization, and ease of delivery.

Islamic Fintech solutions are designed to ensure that financing structures and processes are aligned with the principles of Islamic finance. They ensure transparency and traceability in transactions to meet Shariah requirements.

Fintech solutions provide online platforms or applications that simplify and streamline the process of working capital financing. This includes digital documentation, automated approvals and fast disbursement of funds. Fintech platforms can facilitate peer-to-peer (P2P) financing or crowdfunding models by matching companies in need financing with individual or institutional investors willing to provide the funds.

Fintech solutions can offer digital payment systems that enable businesses to make and receive payments easily. Fintech platforms can offer supply chain financing solutions that help businesses optimize their cash flows by providing financing based on verified business transactions. This can include financing invoices or purchase orders,

Crowdfunding, as explained by Rabbani (a means of capital raising regarding an idea, business, or cause when investors interested in the project work together. Crowdfunding is a method where small businesses or start-ups raise their capital by collecting money from interested stakeholders, and it is another option of the traditional crowdfunding model that functions as adhered to Islamic principles. With this kind of crowdfunding, it associates the concepts of crowdfunding and Islamic finance to come up with a Shariah-compliant method of raising funds for projects, businesses, or social initiatives (Abdul-Razak et al., 2020).

Furthermore, Islamic crowdfunding can enhance financial inclusion when it allows individuals to take part in the development of businesses and contribute to economic development according to Islamic principles. It lets the individuals uphold projects that align with their standards. However, the following are considered some of the most typical criticisms: the risk of hypothetical performance, inadequate investor protection, absence of transparency, and excessive dependence on technology.

Islamic crowdfunding is a relatively new sector within Islamic finance, it is still in its early stages and faces several challenges and issues. One of these challenges is the

development of suitable crowdfunding models that are tailored to the needs of small and medium enterprises (Hassan, 2017).

According to Hanim, Zurina, and Muhammad (2018), there is currently a lack of a well-established theoretical framework to guide Islamic crowdfunding startups. At the same time, the limited awareness and understanding of Islamic crowdfunding have hindered its progress (Achsien & Purnamasari, 2016).

However, these instruments also face some challenges and criticisms:

a. Islamic finance transactions require specific contracts and adherence to Shariah principles, Mistry (2023) argued that Islamic contracts have stricter and more specific procedural controls to ensure and invoke compliance with Shariah resulting in increased complexity that leads to operational challenges and requires additional legal and regulatory scrutiny.

b. Lack of standardization makes it difficult to compare and evaluate different Islamic banking financing products and hinders effective decision-making processes. Aysan et al. (2022) says that “different interpretations of the Shariah law may cause dichotomy, especially at the product level among countries, even within the country, where one Islamic bank approves the product while another disapproves it”.

c. The availability and scalability of financial instruments in Islamic banking can be limited, especially in non-Muslim majority regions. The infrastructure, expertise and market size required to offer Islamic financial products may be underdeveloped, limiting opportunities for businesses seeking Shariah-compliant financing.

d. Closely imitating their conventional counterparts: Moqbel and Ahmed (2020) criticize Islamic banking and finance for closely imitating their conventional counterparts, which dilutes Sharia principles.

e. Nagaoka, (2012) argued that the industry’s efforts to comply with Sharia may sometimes result in the creation of products that only superficially meet Sharia requirements.

f. Diverse interpretations and approval process add a layer of complexity. According to Faizi, (2024) regulatory compliance and securing Sharia endorsements are pivotal hurdles. Every potential product is carefully examined to ensure full compliance with Islamic Sharia principles, necessitating approval from the internal Sharia supervisory board. However, this process, which is vital for aligning products with Islamic law, adds a layer of complexity. The potential for diverse interpretations of Sharia among

advisors may lead to product variations, even when rooted in the same contract. Striking a balance between consistency and compliance amidst these nuanced interpretations presents a significant challenge. Pursuing innovation in product offerings adds another layer of complexity.

g. According to Noman (2001), the main challenge is in creating improved products that provide clients with cost reductions and efficient performance. This challenge emerges as clients now have a broader range of options, including Sharia-compliant products provided by conventional financial institutions. Consequently, Islamic banks must innovate and adapt in a market where customers seek not only Sharia compliance, but also profitability and efficiency in their banking services. Moreover, the competition is heightened by the presence of traditional commercial banks operating Islamic banking units or subsidiaries. Therefore, it is imperative for Islamic banks to differentiate their offerings and retain their customer bases.

h. The structuring of financing instruments in Islamic banking may involve higher costs due to additional legal and regulatory requirements for Shariah compliance, increasing complexity and expense. The lack of standardized contracts and agreements can further complicate the negotiation and execution of Islamic banking financing, which can lead to higher transaction costs and legal complexity. Al-Gamal (2006) argues that Islamic financial products incur additional legal and jurisprudential expenses, several transactions, special purpose vehicles, and ownership documentations. Furthermore, associated costs will arise from the complex framework of Islamic banks, including penalties for delayed payments, therefore, financing them tends to be more expensive.

3.7 Conclusion

Put in a nutshell, effective working capital management is fundamental for businesses to gain financial stability and sustain operational efficiency. However, this needs to be considered cautiously regarding financing options, policies, and innovative solutions customized to the exact needs and constraints of the business environment.

Traditional banking methods offer a range of short-term financing options, but Shariah-compliant companies face unique challenges due to interest rate prohibitions and specific financial structures. However, advancements in Islamic working capital financing such as Murabaha, Islamic factoring and fintech solutions offer promising alternatives to meet Shariah-compliant financing needs.

Despite this progress, criticisms of Islamic working capital financing instruments remain, including complexity, lack of standardization, and limited availability and scalability. Addressing these challenges will require a concerted effort by financial institutions, regulators and businesses to encourage innovation, improve accessibility and ensure compliance with ethical and regulatory standards.



CHAPTER IV

THEORETICAL FRAMEWORK

Capital structure theories attempt to provide a framework for understanding financing decisions. Equity and debt theories (trade-off theory and pecking order theory) Discuss how capital structure decisions are made in corporate finance and they guide financing decisions and provide specific insights regarding optimal capital structure decisions. Myers (1984, as cited in Al-Alfifi, 2020) raised a critical issue by acknowledging the gap between financial theories and actual corporate financing behavior. He proposes that "We don't know how firms choose debt, equity ... our (financial) theories don't seem to explain actual financing behavior, and it seems presumptuous to advise firms on optimal capital structure when we are so far from explaining actual decisions..." (p. 24).

In Sharia-compliant companies, it is important for the theoretical framework of capital structure to recognize how religious principles influence financial decisions, while conventional corporate financing decisions, guided by mainstream theories, pointed on the interaction between debt and equity. Each of the two theories (trade-off theory and pecking order theory) belong to the mainstream financial theories, these assume in their assumptions that people are rational actors, that they are free from emotions or the effects of culture and social relationships, and that Individuals act based on self-interest and the pursuit of maximum utility. Additionally, it is assumed that markets operate efficiently and companies act rationally, and profit-maximizing. Nevertheless, applying these frameworks to Islamic finance is accompanied by challenges due to certain distinctive characteristics of Islamic finance and limitations associated with the rules of Shariah.

4.1 Review and Proposal of Existing Theories

In this section, the researcher focuses on the evolving process of different theoretical frameworks and how they are related to Islamic financial practices. It provides an inclusive review of existing theories on capital structure to provide a cognitive basis that paves the way for the theoretical framework of this study.

4.1.1 Trade-Off Theory

According to this capital structure theory Businesses determine the optimal balance between debt and equity funding, so that they take decision to determine the best possible combination between them. Proposed originally from Kraus and Lichtenberger (1973), this theory implies that bankruptcy costs and the tax benefits of debt financing must be in balance, and it proposes that companies rely on a combination of debt and equity as sources of funding not on a sole source of financing. The theory's key objective is to build the most favorable capital structure by means of balancing the advantages of debt financing, such as tax shields, with the costs related to it, as of interest payments and the risk of financial adversity.

4.1.2 Pecking Order Theory

Stewart Myers and Nicolas Majluf presented the Pecking Order Theory in 1984, and it considers a hierarchy that managers often use when they are in quest for sources of financing when having an investment opportunity. According to this theory, managers prioritize funding options in an order as follows: first, utilizing the company's retained earnings, then, they use debt financing, and they consider equity financing as a last option. This model suggests that companies prefer internal financing over external sources.

Both theories belong to the mainstream financial theories, which assume in their assumptions that people behave in a rational manner, and they make rational decisions without emotional interference or the effects of culture and social relationships, and individuals act in their own self-interest to maximize their utility.

4.1.3 Mainstream Theories and Islamic Finance

Due to the restrictions related to the rules of Shariah, applying the theories of picking order and trade-off to Islamic finance is is undergoing significant challenges. The principles of Islamic finance adhere to the religious laws of Shariah, while conventional finance is based on financial theories without the requirement to adhere to religious laws (Hayat & Malik, 2014; Rashid & Saw Tek Wei, 2019).

In the discussion of capital structure theories concerning Shariah-compliant firms, the question arises as to how the unique characteristics of Islamic financial instruments affect the balance between the elements of capital structure (Eskandar et al., 2019). In contrast to conventional finance, the theories that outline the ideal capital structure for

Shariah-compliant companies are in the preliminary stages of development. In conventional finance, the ability to choose different capital structures stems from a company's ability to use debt for financing purposes. However, determining the optimal debt-to-equity ratio is a challenge for Shariah-compliant companies. This limitation hinders the applicability of conventional capital structure models for Shariah-compliant companies given that traditional theory defines optimal capital structure through the utilization of debt as a financing tool.

The debate revolves around whether the optimal capital structure can be applied by companies that adhere to the principles of Islamic Sharia through neoclassical economic theories. When analyzed from a conventional point of view financing behavior of sharia commitment enterprises may be appear irrational (Haron, 2016).

Religious and ethical considerations play a central role in shaping Islamic financial behavior and often overlap or conflict with conventional theoretical interpretations.

Guizani (2020) examined the pecking order theory of capital structure in the context of Islamic forms of financing. Aiming to find out if the basic assumptions of pecking order theory explain the capital structure mix of companies that operate according to Islamic principles. He concludes that companies prefer to depend more on equity, then on sales-oriented instruments and leave sukuk as the last option to depend on.

(Eskandar et al., 2019) Analyze the capital structure decisions of Shariah-compliant companies from an Islamic finance perspective and concluded that the existing theories, though important, aren't sufficient enough to explain the financing decisions of Shariah-compliant firms, so further consensus building is required. It is still questionable in regards of classifying sukuk, tax treatment and what impact Shariah restrictions have on the company's performance and valuation. There is a need for clarification in order to achieve a comprehensive understanding comparable to that of conventional financing.

4.1.4 Psychological Economic Theory

The psychological economic theory, associating perceptions of psychology and economics alongside, is a notable theory in this regard. This approach, which explains different aspects of this study, distinguishes how religious and ethical considerations impact economic decisions, and introduces perceptions about behavioral economics. The psychological economic theory offers a wider perspective where the complexities

of the financial behavior of an Islamic finance context can be studied and comprehended by exploring cognitive biases, efficient rules and the influence of social and emotional factors.

Theoretical discussion in previous literature on Islamic Financing Adoption

- a) Eskandar et al. (2019), focus on addressing the decision-making process behind the capital structure of Shariah-compliant firms in the real world. How these firms should determine their debt level, and is it feasible to maximize their value with zero debt, their chapter seeks to explore how Shariah-compliant firms approach capital structure decisions within the context of Islamic finance principles. Their review highlights the necessity of developing new theories to better understand capital structure for Shariah-compliant firms. Their argument is that although the current theories are relevant, they cannot adequately explain the financing choices of Shariah-compliant firms.
- b) Jamshidi and Kazemi (2020) in their comprehensive study employ an integrated model in order to observe several dimensions, including factors like relative advantage, compatibility, customer awareness, satisfaction, and attitudes. Such dimensions are vital to understand the aims of using the services of Islamic financial. They designed their model according to Innovation Diffusion Theory (IDT) and Theory of Reasoned Action (TRA), the results highlight the dominant status of these factors in amplifying the adoption of Islamic services.
- c) In their study which is conducted in Pakistan, Ali and Puah (2017), focus on the adoption of Islamic banking. Their study observes qualities resulted from the Diffusion of Innovations (DOI) theory. It also classifies compatibility, relative benefit, complexity, observability and trial ability, and consumer awareness that impact the adoption of Islamic banking as critical factors.
- d) In their study titled "Capital structure dynamics of Shariah-compliant firms vs non-compliant firms: evidence from Pakistan. Akbar et al. (2023) compare the impact of capital structure determinants on the leverage. The objective of the study is to estimate and compare the speed of capital structure adjustment for both types of firms. The study shows that SC companies are slower to adjust to their target debt ratio than NC firms. Finally, significant differences were found in the results on different screening criteria.

e) In Indonesia, Reni and Ahmad (2016) investigated the application of the Theory of Reasoned Action (TRA) in addition to the Theory of Planned Behavior (TPB) in examining the influence of attitude, subjective norm, religion, knowledge, pricing, and government support on behavioral intention and choice of Islamic banking services. The study results show which aspects influence the choice of Islamic Banking. It shows that attitude, subjective norms, religion, knowledge, and government support play a significant role in so, whereas while price has no significant influence.

f) Aiming to comprehend the factors which influence the behaviors of Moroccan entrepreneurs towards adopting the Islamic Financing, Sattar et al. (2019) introduce a research model that draws on the theories of reasoned action (TRA) and planned behavior (TPB), in addition to the model proposed by Jaffar and Musa, which altogether make up a comprehensive twelve-variable research model. The following compose the key variables and hypotheses proposed in their study:

1. Variables Leading to a Positive Attitude towards Islamic Finance

a. Motivation and Religious Commitment: Entrepreneurs deeply holding religious beliefs and commitment may have more preference e towards Islamic financial products.

b. Islamic Financing Costs' Advantages: A positive attitude towards Islamic finance is achieved by lower costs or perceived financial advantages.

c. Greater awareness and understanding about Islamic financial products

d. A positive reputation of Islamic finance including factors such as trustworthiness and reliability.

e. Support from businesses, such as endorsements or partnerships.

Moreover, the attitude towards Islamic financing is predicted to have an indirect effect on the variable 'intention to adopt Islamic financing, this dependent variable is expected to be affected by the following other variables:

2. Variables Indirectly Affecting Attitude:

a. Perceived Usefulness of Islamic Finance: A more effective attitude towards Islamic financing is applied if individuals perceive Islamic finance as useful.

- b. Social Influence (Subjective Standards): Attitudes of enterprises towards the Islamic financing are affected indirectly by social approval or disapproval.
- c. Perceived Behavioral: A more positive attitude is gained with a more controlled perception of adopting Islamic finance.
- d. Organizational Culture: A more positive attitude towards Islamic finance is indirectly acquired through a supportive organizational culture.
- e. Government Support: Attitudes towards Islamic finance are indirectly affected by strong government support, such as favorable policies or inducements.

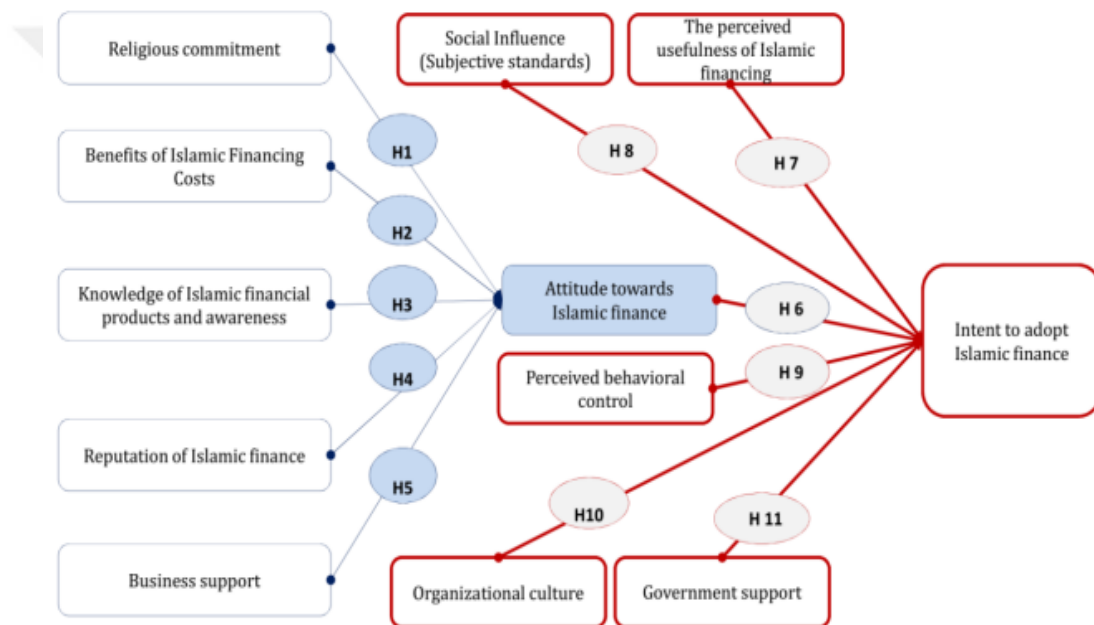


Figure 4.1: A Conceptual Framework for Factors Influencing the Adoption of Islamic Banking Products: The Case of Moroccan VSEs (Sattar et al., 2019)

Source: Sattar et al., 2019.

4.2 A Review of the Empirical Studies

In the realm of banking and finance, a group of factors have an influence over individuals and businesses when making decisions about financial services. Therefore, having a full understanding of these factors is essential for comprehensive understanding of enterprises working capital financing. In this section, relatable literature is highlighted so that to determine the key variables which are likely to impact attitudes of individuals and companies towards applying Islamic banking

methods for working capital financing. A review literature revealed a number of variables that are likely to be related to this study:

- a. **Religious variable:** Mutually (1996) focused on the Arab countries with mixed banking systems and found a direct correlation between religious motives and the use of Islamic banks, emphasizing the importance of faith in shaping banking preferences.

Murtala et al (2020) investigated the influence of religion on customers' decision to use a non-interest bank in Nigeria. The study identified religious affiliation, religious preferences and religious fundamentalism as significant factors influencing customers' bank selection decisions, indicating the central role of religious considerations in the decision to use banking services.

In his study in Kuwait, AL sultan (1999) underlined the religious considerations being the core center to motivate people getting engaged in the services of Islamic banking. Regardless of the influence of Islamic banking, his study discovered that a noteworthy number of participants chose conventional banks with better services as their favorite banking system, which implies that quality of a service persists to be a decisive factor to use Islamic banking.

The chapter analyzed by Mansour and Jlassi (2014) took a broader perspective and examined the influence of religious beliefs on various financial aspects such as preferences, risk perception, ethical values and psychological behavior. Given the pervasive presence and influence in these studies, the examination of the religious variable in the research is warranted.

The different points of views from different authors regarding the religion as a variable are, first, Metwally has identified religion as the primary motivator. Secondly, Murtala et al. have established the parallel between BSD and religious variables. Finally, AL sultan highlights the main central role of religious considerations. Therefore, examining this variable will provide valuable insights into its impact on the adoption of Islamic instruments.

- b. **Awareness:** The study by Abduh (2014) in Dagestan emphasizes that awareness has a positive influence on the intention to support Islamic banking, even in the absence of basic knowledge.

Ernawati et al. (2022) emphasize the crucial role of public awareness in the development of Islamic finance and suggest collaborative efforts to increase

awareness. Moreover, the study of Albaity and Rahman's (2019) conducted on Islamic financial literacy (IFL) shows a notable occurrence of IFL among participants and emphasizes the impact that awareness, reputation and attitude have on the intention of utilizing Islamic banking. The mediating role of attitude deepens the understanding of the relationship between IFL and adoption.

The study by Utomo et al. (2024) in Indonesia highlights the significant influence of attitude and awareness on business owners' intentions to use Islamic financial products and confirms that awareness plays a crucial role in the financing decision. This discussion emphasizes the importance of exploring the effect of the awareness factor on the adoption of Islamic instruments.

- c. **Constraints variable:** several studies indicated that obstacles are one of the basic factors that affect the decision to adopt financial instruments “Financial Constraints and Speed of Working Capital Adjustment” is a study conducted by Ahangar (2020) and looks forward to investigating the presence of a target level of working capital and the speed of how companies tune their working capital. Additionally, it studies the effect of the financial constraints on the speed of tuning. The results of the study, companies adjusting their working capital fast enough face fewer financial constraints in comparison with those firms that face a higher level of such constraints.

The International Monetary Fund (IMF) Staff Discussion Note (SDN/15/05) named "Islamic Finance: Opportunities, Challenges, and Policy Options" highlights a recognizable trend in Islamic finance to structure transactions and financing to resemble conventional (debt) financial contracts, which eventually leads to complex stages of transactions and involves third parties so that Shariah compliance is guaranteed (International Monetary Fund, 2015).

Djemaa (2018) conducted a study to evaluate Islamic financial instruments in terms of their characteristics and impact on corporate adoption. The study highlights the awareness faced by Islamic banks in financing small and medium enterprises (SMEs), including limited product offerings, non-standardized contracts and issues related to movable collateral, information sharing barriers and staff shortages. These challenges serve as essential components of the theoretical framework that identifies the practical obstacles that may hinder the implementation of Islamic finance principles.

- d. Collateral requirements: In their study of Islamic Banks in Indonesia, Saifurrahman and Kassim (2022) concentrate on identifying and comparing the collateral requirements for micro, small and medium enterprises (MSMEs). As a result of their study, MSMEs are obligated by the provision of collateral to gain regular financing from Islamic Banks, preferably fixed assets as in lands and real-estate. Despite the availability of unsecured financing from Islamic banks, their disbursement remains limited.

Kammer et al. (2015) discuss the limitations of asset-based financing, including risk concentration, difficulties for firms without tangible assets to qualify, capital-intensive collateral valuation and monitoring, dependence on the quality and marketability of collateralized assets, and limited flexibility in working capital management.

- e. Complexity: Latip et al. (2017) that effect the adoption of Islamic banks instruments, including compatibility, relative advantages/observability and complexity.

Overall, the assessment of the complexity of Islamic financing instruments, emphasized in this study, provides a reasoned basis for understanding the impact of this complexity on the adoption of Islamic instruments to working capital financing.

- f. Shariah Compliance: The results of the research, conducted by Bugshan et al. (2023), state how Shariah compliance (SC) is impacting net working capital (NWC), targets and firms' speed of adjustment, emphasize the substantial impact of Shariah compliance on corporate decisions which are linked to NWC. The research also shows that Shariah compliant companies prefers to set higher NWC targets than non-compliant companies. Furthermore, this study highlights the importance of compliance with Islamic laws, restrict the externalization of capital and lead to higher expected bankruptcy costs. For that goal, and in order to cover immediate business needs, lessen bankruptcy hazards, and rely less on overpriced external sources of financing, financial managers in Shariah-compliant firms have to consistently uphold higher NWC targets.
- g. Specific Market Dynamics: Claessens (2006) Recognizes three core Elements that impact small and medium enterprises' financial accessibility: the availability of

financial services, The cost associated with financing, and The flexibility in financial services, which refers to how well these products are tailored to the needs of SMEs, Ahangar (2020) confirms that firms facing fewer constraints exhibit greater flexibility in quickly adjusting their working capital than firms facing significant financial constraints. A dynamic market environment is an instance of how financial constraints critically affect the flexibility and responsiveness of firms in handling their working capital.

an experiment conducted by Laghari and Ye (2019) Revealed an inverted U-shaped correlation between working capital management and performance, highlighting patterns among firms with similar financial constraints. The study compares the level of the working capital as when it is low, early payments get affected by the high sales and discounts, whereas when the working capital is high, the opportunity costs and the cost of external financing get dominant. The results suggest that because of the high cost of debt and debt rationing, the ideal level of working capital for financially constrained firms is relatively low, which underscores the intricate connection between working capital management and firm performance, especially considering financial constraints and market dynamics. Inclusively, these studies explain the significance of why definite market dynamics arising from Shariah constraints and financial constraints in working capital management are worth considering.

4.3 Summary of Literature Review

Understanding the relationships between various factors influencing the adoption of Islamic financial products is crucial for assessing their impact on decision-making processes. Numerous studies have examined these relationships, highlighting key variables. Table 4.1 summarizes the findings of previous research, showcasing how these variables interact and influence the adoption and implementation of Islamic finance principles.

Table 4.1: The Relation between Variables as It Investigated in the Previous Studies

Variable	Reference	Description
Religious Beliefs	Mutually (1996), Alsultan (1999), Mansour & Jlassi (2014)	Beliefs and values related to religion, influencing banking preferences

Religious Beliefs	Murtala et al. (2020)	Religious beliefs moderating relationship between awareness and intention to use Islamic instruments
Awareness	Abduh (2014), Rosnawintang, Ernawati, and Wonua (2022), Rammal & Zurbruegg (2007)	Knowledge and awareness about Islamic banking and financial products and its impact on adoption decision.
Market Dynamics	Saifurrahman & Kassim (2022)	Unique market characteristics impacting adoption of Islamic finance
Market Dynamics	Latip, Yahya, & Junaina (2017)	Market dynamics moderating relationship between complexity of financial instruments and adoption
Obstacles and Challenges	Djemaa (2018)	Challenges hindering implementation of Islamic finance principles
Sharia Compliance Requirements	Bugshan, Alnori & Ananzeh (2023)	Compliance with Sharia law influencing corporate decisions
Financial Performance Objectives	Bugshan, Alnori & Ananzeh (2023)	Business goals impacting corporate decisions related to Islamic finance
Attitudes	Abduh (2014), Albaity & Rahman (2019)	Personal attitudes influencing intention to use Islamic financial products
Complexity of Financial Instruments	Kammer et al. (2015)	Complexity of financial instruments affecting adoption
Capital Adjustment Constraints	Kammer et al. (2015)	Constraints on capital management decisions within Sharia-compliant companies
Availability	Saifurrahman & Kassim (2022)	Availability of Islamic financial products influencing adoption
Flexibility	Kammer et al. (2015)	Flexibility of financial products impacting adoption
Satisfaction	Albaity & Rahman (2019)	User satisfaction mediating intention to use Islamic financial products
Collateral	Saifurrahman & Kassim (2022)	Collateral requirements influencing adoption
Financial Constraints	Ahangar (2020)	Financial constraints moderating speed of adjustment in working capital management

Source: Self-Prepared Table.

4.4 Proposing New Conceptual Framework

In This section the researcher introduces a new conceptual model for working capital financing among Palestinian Micro, Small, and Medium Enterprises (MSMEs). This model provides a nuanced understanding of the factors which enhance the attitudes regarding the adoption of Islamic banking methods. In building his model, the researcher based their approach on the assumptions drawn from the Theory of Planned Behavior (TPB) as well as Theory of Reasoned Action (TRA), in addition to the investigation by Reni, A., and Ahmad, N. H. (2016) used to apply in analyzing the effect of features such as attitude, subjective norm, religion, knowledge, estimated prices, and government support on behavioral purpose and choice of Islamic banking services in Indonesia. Moreover, the established theoretical frameworks added by Sattar, Hamza, and Moghar (2019), the model involves further variables and insights gathered from previous studies.

4.4.1 Justification to Proposing a New Conceptual Model

Due to the following reasons, a new conceptual model was proposed

1. **Contextual Relevance:** The adoption of Islamic finance for SMEs, highlighted in the model of Sattar et al. (2019), is set in a general context, therefore, it will perhaps not fully comprehend the unique dynamics and challenges Palestinian MSMEs struggle. When the model is customized to fit the Palestinian context, we can justify certain cultural, regulatory, and market factors influencing attitudes towards Islamic banking methods.
2. **Specific Focus on Working Capital Financing:** In contrast to the current model that generally introduces Islamic finance adoption, our proposed model focuses on a specific financial need; working capital financing. MSMEs in their daily operations are in need for a working capital. Therefore, it is essential to understand the factors enhancing attitudes owners or financial managers of MSMEs towards the use of Islamic banking methods in financing their working capital needs.

4.4.2 Key Variables in the Conceptual Framework

a. **Psychological Factors:**

1. **Religious Beliefs (moderator):** moderating the relation between attitudes and adoption decision of Islamic financial instruments.

2. Awareness (moderator): moderating the relation between attitudes and adoption decision of Islamic financial instruments.
- b. Attitudes: is composite variable combining multiple indicators that represent different aspects of the overall attitude.
1. Sharia Compliance (Indicator): impacts attitudes to adoption Islamic banking instruments.
 2. Transaction Processing Time (indicator): impacts attitudes to adoption Islamic banking instruments.
 3. Diverse Products and Services (indicator): impacts attitudes to adoption Islamic banking instruments.
 4. Effective Communication (indicator): impacts attitudes to adoption Islamic banking instruments.
 5. Personalization (indicator): impacts attitudes to adoption Islamic banking instruments.
 6. Perceived Complexity (indicator): impacts attitudes to adoption Islamic banking instruments.
 7. Liquidity Perception: (indicator): impacts attitudes to adoption Islamic banking instruments.
 8. Risk Perception: (indicator): impacts attitudes to adoption Islamic banking instruments.
 9. Flexibility (indicators): impacts attitudes to adoption Islamic banking instruments.
 10. Cost Perception (indicators): impacts attitudes to adoption Islamic banking instruments.
- c. Collateral Requirements: independent variable that directly affect decision of adoption. If the companies couldn't fulfil the requirement collateral, it would be impossible to take adoption decision.
- d. Availability: has a direct impact on decision-making by providing alternative options.

- e. Accessibility: has a direct effect on the adoption decision; if it's not available, it's impossible to take decision.

4.4.3 Hypothetical SEM Model (Structural Model)

In this section, the researcher conducts Hypothetical Structural Equation Model (SEM) established to consider the factors that affect the adoption of Islamic banking methods for working capital financing among Palestinian MSMEs. In this model, there are direct and indirect paths illustrating the impact of various factors on the decision of the adoption.

Direct Paths:

1. Associated risk → Adoption
2. Awareness → Adoption
3. Complexity → Adoption
4. Effective communication → Adoption
5. Flexibility → Adoption
6. Personalization → Adoption
7. Sharia compliance → Adoption
8. Transaction processing time → Adoption
9. Costs → Adoption
10. Shariah commitments → Adoption
11. Accessibility → Adoption
12. Availability → Adoption
13. Collateral requirements → Adoption

Indirect Paths/ Interaction Effects:

- Awareness influences the impact of several factors on decision making:
 - Awareness × Costs → Adoption
 - Awareness × Transaction processing time → Adoption
 - Awareness × Effective communication → Adoption

- Awareness × Sharia compliance → Adoption
- Awareness × Personalization → Adoption
- Awareness × Complexity → Adoption
- Awareness × Associated risk → Adoption
- Awareness × Flexibility → Adoption
- Shariah commitments (religious belief) interact with several factors in influencing decision-making:
 - Shariah Commitments × Costs → Adoption
 - Shariah Commitments × Transaction Processing Time → Adoption
 - Shariah Commitments × Effective Communication → Adoption
 - Shariah Commitments × Sharia Compliance → Adoption
 - Shariah Commitments × Personalization → Adoption
 - Shariah Commitments × Complexity → Adoption
 - Shariah Commitments × Associated Risk → Adoption
 - Shariah Commitments × Flexibility → Adoption

This model incorporates both direct influences, such as costs, awareness, and complexity...etc. and indirect interaction effects, particularly through awareness and Shariah commitments, which modify how other factors affect decision-making and adoption. Each factor either independently or in combination influences firm moves toward adoption

4.4.4 Conceptual Diagram

This diagram is a visual representation of the relationships between the factors and helps to illustrate the complexity of such decisions. It includes variables, challenges, awareness, religious considerations, market dynamics, and other relevant factors identified in previous studies. The conceptual diagram serves as a tool to provide a comprehensive overview and understanding of the factors influencing the adoption of Islamic financial instruments in the context of working capital financing for MSMEs.

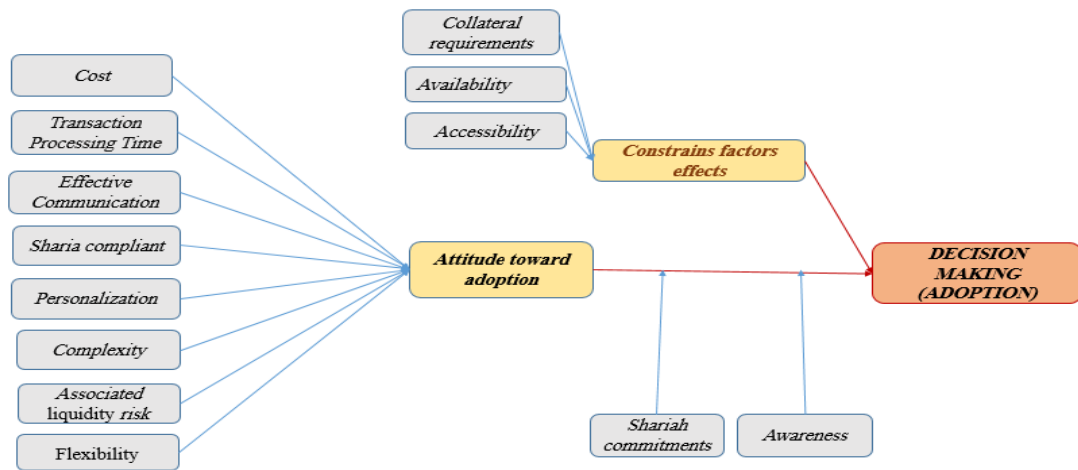


Figure 4.2: Conceptual Framework Diagram

Source: Self-Prepare Diagram

4.5 Chapter Conclusion

This chapter aimed at providing an inclusive comprehension of the factors which affect adopting Islamic financial instruments for working capital financing in MSMEs by reconsidering perceptions from previous literature and theoretical frameworks.

Influential Factors Identified in Prior Literature: Religious beliefs are believed to have a significant impact over the decision making in regard of the preference over the banking services. For instance, financial decisions are highly influenced by the Shariah principles. Tending to adopt Islamic Banking is also influenced by the factor awareness through which enterprises are supplied with the knowledge about the benefits and characteristics of Islamic Banking. On the other hand, several constraints, such as regulatory hurdles and limited access to Islamic financial institutions, can obstruct the adoption of Islamic Banking. Moreover, specific market dynamics, including demographic inclinations and cultural attitudes have an impact on the adoption of Islamic finance as well as customer satisfaction with service quality and Sharia compliance practices. Collateral requirements and the complexity of Islamic financing instruments are no exception of their influence on the decision-making process.

Theoretical Framework: In this section, it was explained how capital structure theories, such as the trade-off theory and pecking order theory, offer initial insights into the

symmetry of debt and equity financing, Shariah-compliant finance, introduces unique challenges that may can't explaining by conventional theories.

Psychological economic theory, by combining psychology and economics, distinguishes the influence of cognitive biases, interrogatives, and social factors on financial behavior. Also, Innovation Diffusion Theory (IDT) beside the Theory of Reasoned Action (TRA) emphasize the role which attitudes, social influence, and perceived control may play role in determining the intentional behaviors toward adopting Islamic financial instruments.

Developing Conceptual Framework: in this chapter the researcher propose new conceptual framework that offers an interdisciplinary perspective on financial and behavioral factors influencing adoption of Islamic finance by combining rational assumptions from capital structure theories with principles from IDT and TRA. In this conceptual, religious beliefs have an impact on decisions, while awareness impacts attitudes of financial managers. In addition to constraints, market dynamics, satisfaction, and consumer awareness were vital in shaping adoption decisions.

To sum up, adopting Islamic financial instruments for working capital financing in Sharia-compliant companies is impacted by several factors, such as religious beliefs, awareness, constraints, market dynamics, satisfaction, and consumer awareness. Integrating capital structure theories with psychological and behavioral insights provides a framework for understanding these influences, highlighting the need for tailored theories and assumption that explain the financing behaviors of enterprises financial manager toward Islamic financial.

CHAPTER V

RESEARCH METHODOLOGY AND DATA COLLECTION

This chapter discussed and presented the research methodology; the justification for the selected methodology, research design, data collection techniques, sampling methods, analysis procedures, and ethical aspects. Each aspect discussed in detail to provide a thorough understanding of how the research was conducted and how the findings were derived. Additionally, the researcher highlighted any limitations or constraints encountered through this study. Furthermore, the researcher evaluated the methodology from its strengths and weaknesses to provide validity the quality, and reliability of the result. Finally, the researcher addressed ethical considerations to ensure that this research complies with the highest ethical standards and ensures respect for participants.

This chapter began with an overview of the research design, explaining why specific methods were chosen and how they align with the research objectives. The researcher then delves into the data collection methods used, providing a detailed account of both qualitative and quantitative approaches, and explaining how these methods complement each other to offer a comprehensive perspective on the research topic.

5.1 Research Design

A mixed-methods approach was employed in the development of the research design, incorporating both qualitative and quantitative methods to provide thorough coverage of the research aspects.

5.2 Qualitative Methodology

The researcher conducted a semi-structured interview with financing experts from Islamic banks. Through utilizing this mythology, the researcher sought to gather comprehensive information about practices, challenges, and perceptions associated with Islamic working capital financing.

The qualitative mythology part provides rich contextual data that illuminates the underlying reasons and motivations behind the use of Islamic financial instruments (IFI).

5.2.1 Quantitative Methodology

The researcher applied structured questionnaires to financial managers in Palestinian micro, small, and medium enterprises that have experiences with Islamic financing. These questionnaires were carefully designed to predict the extent of use of Islamic banking tools and the effectiveness of these tools, as well as to understand the factors that influence the decision to adopt them by establishments committed to Sharia transactions. Using this data, the researcher is become able to conduct statistical analysis to determine trends and relationships within the data set.

5.2.2 Integration of Qualitative and Quantitative Methods

The researcher conducted a comprehensive analysis to achieve deep investigation, by triangulating the results, thus verifying the validity the questioner and interviews and complementing of each other. The researcher worked to enhance the credibility of the results of this study by using multiple data sources to confirm the results. This is called triangulation technique.

5.2.3 Triangulation Approach

This approach signifies a pragmatic orientation towards addressing the research problem comprehensively. By applying multiple methods; semi-structured interviews and questionnaires, we aim to capture diverse perspectives relevant to the research inquiry. This triangulation not only validates the findings but also enriches the analysis by incorporating various viewpoints.

5.2.4 Rationale for Methodological Approach

The researcher decided to use a mixed-approach because he need a comprehensive understanding of Islamic methods for short-term working capital financing. Due to the complexities of the study issue, the researcher use this technique able to investigate the beyond quantitative data alone; by integrating qualitative insights with quantitative research. So, this developed methodology gives a full and nuanced investigation of the issue.

5.3 Analytical Techniques

Hult et al. (2022) reported that for a long time, social science researchers have relied on statistical analysis as a vital tool to improve their ability to generate, explore, and validate research findings. Because computer hardware and software have greatly

expanded the range of statistical methods available. In the beginning, researchers used univariate and bivariate analysis to understand data and the relationships between variables. Now, there is a growing need to utilize more advanced multivariate data analysis techniques to understand increasingly complex relationships in social science research (Hult et al., 2022). In our study, Structural Equation Modeling (SEM) was used as a statistical method to analyze the complex relationships between variables.

5.3.1 The Structural Equation Modeling (SEM)

The SEM method examines multiple relationships between different groups of variables simultaneously and encompasses several techniques. Shiker (2012) reported that SEM involves incorporating latent variables that are either unobservable or cannot be directly measured in the analysis (Shiker, 2012). He developed Smart PLS software to apply Partial Least Squares - Structural Equation Modeling (PLS-SEM). This method to measure the unobservable variables using indicators. Smart PLS was introduced in 2005 and has gained popularity among researchers due to its user-friendly interface and advanced reporting capabilities (Aburumman et al., 2023). A significant benefit of PLS-SEM model, is its ability to allow researchers to easily examine and simplify the structure, thereby facilitating the assessment of relationships within indicators, and constructs for the purpose of hypothesis testing. This technique is widely used in various fields, including social sciences, psychology, economics, and epidemiology, to study complex systems and test hypotheses.

5.3.2 The Construction for the SEM model

In the SEM model, latent variables such as Psychological Factors, Attitudes, Satisfaction Factors, Constraint Factors, Financial Performance Factors, and Applicability Factors can be represented by multiple observed indicators. The relationships between these latent variables and their corresponding indicators are outlined.

The direct and indirect effects between variables can be examined to understand the influence of each factor on adoption decisions. In this case Attitudes as latent variable measured using indicators and at the same time have an effect on the decision-making (serve as an independent variable predictor). Awareness and religious beliefs moderate the effect of attitudes and constraints on decision-making, and decision making (adoption) serve as final outcome (dependent variable).

5.4 Data Collection Methods

As mentioned before this study design is based on integrating qualitative (interviews) and quantitative methods (questionnaires) to provide comprehensive coverage for this research aim. In this study, semi-structured interviews were used to collect the data along with a questionnaire and conducted simultaneously with two distinct stakeholder groups to capture diverse perspectives relevant to the research investigation.

5.4.1 Questioners

In general, questionnaires apply to gather specific and structured information from a large sample of participants, thereby enhancing the validity and reliability of the findings. It provides comprehensive coverage for all relevant aspects of the research, ensuring clarity and accuracy in the questions to avoid any confusion. The collected data can be analysis statistically in very precisely. According to Pandey & Pandey (2015), the data extracted from the questionnaires is distinctive and cannot be sourced from secondary sources. Kabir reported that questionnaires can serve various purposes beyond collecting statistical data, they can measure separate variables such as; behaviors, preferences, and facts (Kabir, 2016).

In this study the researcher decided to use a structured questionnaire because of several reasons; the researcher need to collect data from a large group of financial managers in Palestinian MSMEs. And Due to the fact, Questionnaires offer collecting data from a large sample in a timely and cost-effective manner, crucial for achieving comprehensive insights. According to that this approach is the most suitable and convenient for this study.

a) Design and Development of the Questionnaires

The researcher designed a questionnaire to collect data on the perspectives of financial managers in Shariah-compliant MSMEs. The researcher extensively reviewed literature and consulted experts in Islamic finance and in the field of statistics, then he identified the variables of the study, and defined the paragraphs and distributed the questions in a way that examined all the paragraphs.

b) The Structure of the Questionnaire

The questionnaire covered the following aspects related to the variables:

- The participant's background and demographic data.

- The perceptions about the Islamic banking instruments (IBI) by assessing the viability, effectiveness, and suitability of IBIs for working capital financing.
- The factors influencing decision-making and adoption by delve into factors influencing financial managers' decisions regarding IBIs for working capital financing.
- The requirements of Shariah by understanding the importance of Shariah compliance in decision-making.
- The factor that effect Behaviors by exploring how behavioral aspects impact decisions.
- The participants' awareness and understanding regarding Shariah-compliant financing, and Islamic working capital options.
- Religious and ethical beliefs by examining the impact of religious beliefs and ethical values on financing decisions and preferences for Islamic instruments over conventional ones.
- The operational performance by assesses how commitment to IBIs affects operational performance; including efficiency, ease of integration, and flexibility in adapting to market changes.
- The financial performance by investigating the impact of Islamic banking financial instruments on overall financial performance; profitability, liquidity, solvency, and growth.
- Constraints by identifying the limitations or obstacles financial managers face in adopting IBIs, such as the complexity of documentation and collateral requirements.

c) Measurement Scales

A Likert scale is a rating scale used to assess opinions, attitudes or behaviors (Bhandari, 2022). It consists of three or more statements that assess a single construct, usually an attitude or trait, when the response values are added together (Boone & Boone, 2012). It has long been known that the level of approval of a product or service depends largely on the mental and neural disposition people have towards that product, service or event (Rob, 2010).

To facilitate a quantitative assessment, the attributes identified in the questionnaire were measured using a 5-point Likert scale. The Likert scale provides a structured format for respondents to assign numerical values to their perceptions, allowing for easier comparison and analysis of the data.

d) Questioner Quality Assurance

Refers to the systematic and thorough procedures used in a research study to ensure the reliability, consistency, validity and transparency of the research methods and findings. This aspect of research methodology is critical to maintaining the integrity and trustworthiness of the research.

- **Questionnaire Reliability:** It's about the consistency and stability of measurements. It's about ensuring that measurements are consistent and stable. A trustworthy research study produces the same results if we do things the same way, under similar conditions, and try to reduce errors and uncertainties in the research process. When we talk about the reliability of a questionnaire, we mean how reliable and repeatable the results are when we use this method to collect data. In simpler terms, it ensures that the way we collect information produces results that we can trust and replicate (Tavakol & Dennick, 2011). To increase the reliability of the data collection tools, the researcher decided to use a reliability test Pilot test, which included 25 questionnaires and used Cronbach's alpha test. This decision was justified by the efficiency of the test, which is less tedious and time consuming (Tavakol & Dennick, 2011).

All 25 respondents provided usable data, which corresponds to a response rate of 100%. This is critical to the reliability of any study as it ensures that the data collected is complete and can be analyzed effectively. No cases were excluded due to list deletions. This means that all available data was used in the analysis to maximize the information obtained from the study participants.

The coefficient of Cronbach's alpha is 0.756. This value indicates a moderate to good internal consistency for the 27 items of the questionnaire. A Cronbach's alpha above 0.70 is generally considered acceptable and the result exceeds this standard.

The actual coefficient is 0.756, which is consistent with the following statement about exceeding the standard cutoff of 0.70% and corresponds to the generally recognized criteria for internal consistency in research (Peterson, 1994; Sekaran, 2003). The value

of 0.756 that we determined exceeds this threshold, which further confirms the reliability of the questionnaire.

The high number of valid cases and the Cronbach's alpha coefficient, which is above the standard cutoff, provide a solid basis for our study. The internal consistency of the questionnaire indicates that the items reliably measure the intended constructs, which underpins the credibility of our research findings.

Based on the insights gained from the pilot test, necessary refinements and adjustments were made to the research instruments and procedures. Specific areas in the questionnaire were identified that may need improvement. Each item was scored to assess its contribution to low internal consistency and consideration was given to removing or modifying problematic items. In addition, steps were taken to ensure that each item was communicated in a way that matched the level of understanding and preferences of the intended respondents

- **Questioner Consistency:** The consistency of the questionnaires is the most important to obtain reliable and meaningful data. To achieve the consistency the researcher takes in consideration several points to cover the following consistency parts:

- **Consistency in response:** A Likert scale was applied to ensure a standard format for answers. This standardization facilitates interpretation and analysis of responses.

- **Consistency in wording:** The words in the questionnaire were carefully selected.

- **Consistency in direction:** The questions in the questionnaire were formulated in reverse order to avoid response bias. This approach helps in assessing respondents' agreement and disagreement with the statements. This ensures a comprehensive understanding and robust data collection.

- **Coherence in linguistics:** Linguistic cohesion is important to ensure that questions are easy to understand for different respondents. Accordingly, the words were carefully chosen to maintain a neutral and understandable linguistic style

- **Consistency in order:** The order of the questions was carefully determined to ensure a logical flow within the questionnaire.

e) Questioner Population

The population of this study consists of financial managers in Palestinian MSMEs in Palestine (excluding Gaza). This study focuses on this specific group due to its relevance to the research objectives, as it allows for an in-depth examination of the experiences and perspectives of financial managers in the Palestinian business landscape.

We exclude the Gaza Strip from our population due to different economic, political and regulatory factors in these regions. Accordingly, selected population is more homogeneous and suitable for our study.

According to the Palestinian Central Bureau of Statistics, The total number of businesses operating across various sectors in Palestine (excluding Gaza), including the private sector, non-governmental organizations, and state-owned enterprises, was reported to be 90,413 in 2017 (This represents the most recent statistical data available until the submission of this thesis). This statistical information provides a context for the size and diversity of the business landscape in the said region and emphasizes the relevance and importance of studying financial managers within this population.

Table 5.1: Total Number of Active Businesses in the Private Sector, Non-Governmental Organizations, and Government Companies Based on Employment Size, 2017

Employment Size Group	Governorate	Micro (1-4)	Very small (5-9)	Small (10-19)	Medium (20-49)	Total
All Palestine		13087	10847	3839	2093	146866
GAZA		41641	3490	1110	584	46825
West Bank		88446	7357	2729	1509	100041
	JENEN	11709	747	189	87	12732
	Tubas	1618	95	31	16	1760
	Tubas	1618	95	31	16	1760
	Tulkarm	6679	426	150	59	7314
	Nablus	14134	1218	442	193	15987
	Qalqilya	3650	236	73	35	3994
	Salfit	2418	186	61	38	2703
	Ramallah	12159	1420	598	430	14607
	Jericho	1153	79	41	40	1313
	AL-Quds	8417	687	365	159	9628

	Bethlehem	7287	649	272	186	8394
	Hebron	19222	1614	507	266	21609

Source: Palestinian Central Bureau of Statistics (2017).

By narrowing down the study to financial managers in sharia commitments MSMEs, the study aims to provide insights into the specific challenges, practices and perspectives in this particular segment of the economy. This focused approach allows for a more precise and meaningful investigation of the research questions and objectives and makes a valuable contribution to understanding the practices of Islamic short-term working capital financing in the context of Palestinian MSMEs

f) Data Collection Method

Anon-probability sampling method is used in this study. It is a method where samples are gathered through a process that doesn't give each individual in the population an equal opportunity for selection (Shinija, 2023). Owing to restrictions in time, funding, and human resources, The Systematic probability sampling is not possible so that the researcher Apply non-probability sampling methods, which feature various techniques like convenience sampling, quota sampling, and purposive sampling (Etikan et al., 2015).

A non-probability sample is not the result of a randomized selection process. And Sample members are usually selected based on specific criteria such as suitability, personal judgment of the researcher, or their relevance to the research objectives. (Shinija, 2023)

In this research, purposeful sampling is employed since purposive sampling facilitates the collection of qualitative responses, it results in richer insights and more refined research outcomes. In this study, enterprises that had previously obtained financing from Islamic banks were targeted, as this category is the most suitable for answering the questionnaire, as they are the most experienced.

The study was conducted on small and medium enterprises operating in the West Bank and did not include the Gaza Strip, as the West Bank consists of 10 governorates, including AL-QUDS.

Table 5.2: Demographic Information of the Respondents

Governorate	Number	Percentage
Qalqilya	9	4%
Tulkarem	18	8%
Nablus	57	24%
Salfit	12	5%
Alberah and Ramallah	114	48%
Jericko	3	1%
AL-Quds	3	1%
Bethlehem	9	4%
Hebron	15	6%

g) Sample Size:

Based on the pilot test results, the response rate was estimated at 32%. After calculating the sample size using the Robert Mason formula, the required sample size was determined to be 384

$$n = \frac{Z^2 \cdot p \cdot (1-p)}{E^2}$$

1. Calculate Z^2 : $(1.96)^2 = 3.8416$
2. Calculate $p \cdot (1 - p)$: $0.5 \cdot (1 - 0.5) = 0.5 \cdot 0.5 = 0.25$
3. Calculate E^2 : $(0.05)^2 = 0.0025$
4. Combine these to find n : $n = \frac{3.8416 \cdot 0.25}{0.0025}$ $n = \frac{0.9604}{0.0025}$ $n = 384.16$

Accordingly, 1,200 questionnaires were distributed via Google Forms, and 269 completed questionnaires were received.

5.4.2 Qualitative Method (Semi-Structured Interviews).

In addition to the quantitative phase, the qualitative method aims to deepen the understanding of the research problem. Semi-structured interviews were performed with financing officers in Palestinian Islamic banks, who have a deep understanding of Islamic financing instruments. These interviews will explore, perceptions, and experiences of financial officer related to the application of Islamic banks' financing methods for short-term working capital needs.

Auerbach (2007) reported that the hypothesis-generating research is crucial when information is limited. Interviews will provide valuable qualitative insights into

participant's opinions and experiences. This qualitative data captures the nuances of Islamic finance practices, in addition, it complements the quantitative findings by explaining the 'why' and 'how' behind numerical patterns.

Our aim from these interviews is to have insights from experts with extensive knowledge of Shariah-compliant working capital financing. The semi-structured approach allows flexibility to explore various aspects in depth. Interviews are integral to our research, and it will enhance the understanding of Islamic banking instruments and practices in Palestine.

a) Interview Structure

The researcher designed the interview based on semi-structured approach to ensure the flexibility to explore topics in greater depth. Our interview structure contain the following parts:

- Introduction and Purpose Clarification: Clarify the purpose of the interview, and ensure the interviewee understands the objectives.
- Back ground and Experience: Inquire about the interviewee's role within the Islamic bank, and explore their expertise and experience in Islamic finance.
- Practices and Challenges in Working Capital Financing: Focus on understanding the practices and challenges encountered in working capital financing for Shariah-compliant enterprises, and delve into the specific Islamic bank instruments commonly utilized, including their advantages, limitations, and regulatory framework.
- Emerging Trends and Best Practices: Explore emerging trends, innovations, and best practices in Islamic finance pertaining to working capital financing, seek insights into any notable advancements or shifts in industry practices.
- Recommendations and Insights: Encourage the interviewee to share recommendations and insights on enhancing working capital financing practices in Shariah-compliant companies, and discuss potential areas for improvement or optimization.

b) Interviews Main Questions

The interview questions were carefully crafted to gain comprehensive insights into the perceptions of the financing officers in relation to Islamic working capital financing.

The structured approach ensures that interviewees understand the nuances of each question, which contributes to a holistic understanding of the topic. Therefore, it is important to structure these questions in a way that is understandable to the respondents. The rationale behind each set of questions:

- The awareness and understanding: the questions ask financier officers in Islamic bank about awareness and understanding of financial manager-owners of MSMEs about Islamic banking financing methods
- The Religious issue and ethical considerations: these question about their observation to about impact of religious considerations on working capital financing choices.
- Operation performance: these questions about the availability, adaptability and effectiveness of Shariah-compliant financing options for working capital that emphasize the practical aspects of Islamic finance. From these questions will expect an interest in understanding how well these instruments align with the operational objectives of enterprises.
- Financial performance: questions related to profitability, financing costs and the overall financial health of organizations in adopting Shariah-compliant working capital financing, that reflect an interest in the financial implications.
- The obstacles, difficulties and criticisms: these questions to investigate the challenges, obstacles and criticisms related to Islamic working capital financing. The researcher aims to gather insights from respondents on the potential challenges businesses face in accessing Islamic working capital financing methods.
- Comparing between Islamic and conventional financing: the researcher asked questions to compare Islamic with conventional working capital financing methods.

c) Validity and Reliability in Qualitative Research

Validating and maintaining the reliability of qualitative research is fundamental to achieving credible and trustworthy results as Creswell (2009), Flick (2013) and Sekaran (2003) emphasize. Although these principles are traditionally associated with quantitative research, they are also applicable in a qualitative context. This section

discusses the strategies that were used to improve the validity and reliability of the study.

- Interview Construct Validity: To ensure construct validity, the study is closely linked to the relevant theoretical concepts. This is achieved by:

1. Conceptual clarity: clear definition and formulation of the key concepts studied to ensure a common understanding.

2. Member verification: Member verification by giving participants the opportunity to review and validate the results to ensure that their perspectives are accurately reflected.

- Interview Internal Validity: To validate the internal coherence and trustworthiness of the causal conclusions, the following approaches are used in the study:

1. Detailed description: rich, detailed descriptions of the research context and participants to provide a nuanced understanding.

2. Chain of evidence: Creating a well-defined and transparent evidence trail that demonstrates the logical flow from data gathering to analysis.

- External Validity To ensure the external validity and generalizability of the results, the following techniques are used in the study:

1. Detailed description of the context: A comprehensive description relating to the research scope and study population to facilitate the transferability of results to similar contexts.

2. Recognition of limitations: clearly articulating the limitations of the study and indicating the contexts in which generalizations are considered appropriate.

5.4.3 Combining Methods for Triangulation

Given the complexity of the research topic, a simultaneous dual interviews were chosen. This method is in line with the recommendations of scholars such as Echtner and Ritchie (1991, 1993), who advocate the use of both structured and unstructured methods to fully capture the nuances of the research topic. Which ultimately increases the reliability and validity of the research findings. Triangulation compares the results obtained with different methods, reducing the risk of bias and producing a more robust and credible analysis.

The concept of method triangulation can therefore be understood in two different ways: as a validation of results by applying different methods or as a combination of methods and/or data with the aim of delving into the research field more comprehensively, with a clearer explanation supported by a range of complementary findings that offer multiple perspectives (Erzberger & Kelle, 2003).

Through the use of this method, the researcher aims to obtain a thorough insight of the effectiveness of Islamic banks instrument in financing short-term working capital needs, considering both different stake holder perceptions. There are several methods of triangulation, including data triangulation, where multiple data sources, all with a similar focus, are utilized, this approach is adopted in this study.

The choice of a mixed-method approach is made for pragmatic reasons, with a problem-centered perspective in the foreground. This methodological strategy allows for a comprehensive study that goes beyond purely numerical data and captures the richness and depth of participants' perspectives and experiences. To achieve the research objectives effectively, a concurrent triangulation strategy, as illustrated in Figure (5.1), has been chosen.

Our strategy involves the simultaneous use of both qualitative and quantitative methods, and applying a comprehensive analysis of the research problem the researcher picked this strategy because of its popularity in literature (Creswell, 2003; Sekaran, 2003; Williams, 2007). It applied for different purposes such as; support, cross-validate, or integrate findings within study (Morgan, 1998).

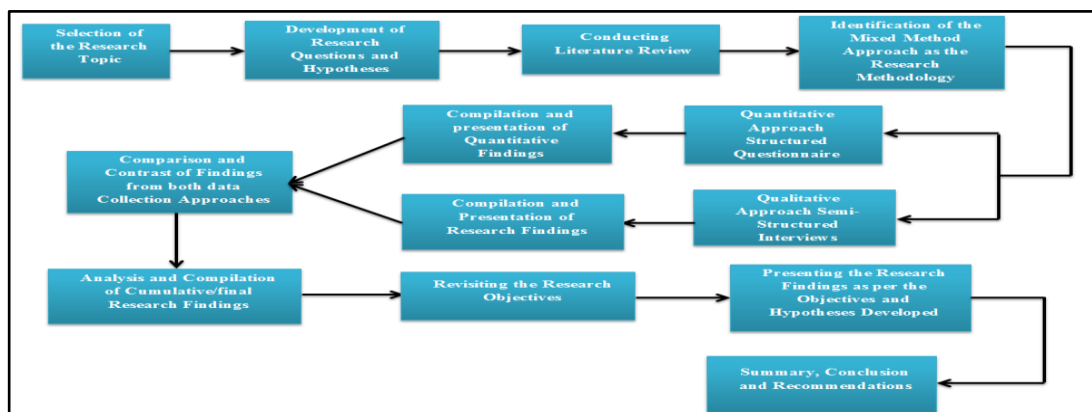


Figure 5.1: Research Flow

Resource: (self-generated) based upon Abuhjeeleh (2017).

5.5 Methodology Conclusion

In conclusion, the key aspect of our methodology is the involvement of two different groups of experts in Islamic working capital finance, namely financing official in Islamic bank and finance managers in MSMEs. Our approach designed carefully to calibrate and prove successful data collection.

The integration of interviews and questionnaires will be providing a significant value to the data we will collect through our study. This integration strategy will not only be contributed to accurate results, but also will reduce the potential bias in the data.



CHAPTER VI

DATA ANALYSIS

In this chapter, the researcher presents analysis the questioner and interviews in the questioner section the researcher uses utilizing both SPSS 28 and SMARTPLS 4 to analyze the data, address the research questions, and validate the hypothesis.

6.1 Questioner Analyses

This section divided into two parts. The first one is the demographic analysis and the second part includes tests; testing hypothesis of the factors that may influence the decisions of financial managers in micro, small and medium enterprises. These areas include religious considerations, awareness, effectiveness, and attitudes. Each area represents a group of factors that are hypothesized to influence financial managers in adopting Islamic Banking solutions to finance working capital using path analysis and bootstrapping in SMARTPLS 4.

Table 6.1: Demographic Characteristics of Respondents (N=240)

Variable	Level	Count	Percentage%
Educational level	Diploma	27	11%
	Bachelors	111	46%
	Master	63	26%
	Ph.D.	39	16%
Years of experience in the current job	Less than 5 years	42	18%
	5-10 years	57	24%
	More than 10 years	141	59%
Job title	Financial managers	165	69%
	Business owner	75	31%
Number of employees working in the institute	Less than 5 emp...	48	20%
	5-9 employees	36	15%
	10-19 employees	42	18%
	20-49 employees	27	11%
	50 or more	87	36%
Nature of organization work	Manufacturing	15	6%
	Commerce	54	22%
	Services	108	45%
	Technology	12	5%
	Investment	51	21%
Where are the enterprises of your organization located?	Qalqilya	9	4%
	Tulkarem	18	8%

	Nablus	57	24%
	Salfit	12	5%
	Ramallah	114	48%
	Jericho	3	1%
	Jerusalem	3	1%
	Bethlehem	9	4%
	Hebron	15	6%
Does your enterprises have a bank account?	Yes	240	100%
If the answer is yes, what type of bank do you have an account with?	Islamic bank	120	50%
	Traditional bank	60	25%
	Both banks	60	25%
Does your enterprises take religious considerations into account when seeking bank financing?	Yes	207	86%
Has your organization ever obtained or sought financing from Islamic banks?	Yes	240	100%

Source: SPSS outcome.

- Educational level: the education level for the sample was distributed as following: (46%) Bachelor's degree, (26%) Master's degree, Ph.D. (16%), Diploma (11%).
- Years of experience in the current job: The highest percentage equals (59%) related to more than 10 years of the sample size, while the lowest percentage related to less than 5 years with a percentage of (18%).
- Job title: the highest percentage related to financial manager with (69%) of the sample size, while (31%) related to business owners.
- The number of employees working in the organization: the highest percentage related to (50 or more) with (36%) of the sample size, while the lowest percentage related to the interval between (20- 49) with a percentage of (11%).
- Nature of enterprises work: the highest percentage related to (services) with (45%) of the sample size, while the lowest percentage related to the (Technology) with a percentage of (5%).
- Where is the headquarters of your enterprises located? the majority of the sample size is located in Ramallah and Al-Bireh with (48%), followed by Nablus with (24%), while the least percentage related to Jericho and Jerusalem with a same percentage with (1%) responses.
- (100%) of organizations have a bank account.

- If the answer is yes, what type of bank do you have an account with? The majority of the sample size related to Islamic banks with (50%), while the least percentage related to traditional banks and both banks, having the same percentage with (25%).
- Does your organization take religious considerations into account when seeking bank financing? The highest percentage related to (yes responses) with (86%) of the sample size, while the lowest percentage related to (no) with a percentage of (14%).
- (100%) of enterprises have obtained or sought financing from Islamic banks.

6.1.1 Testing the Hypothesis

In this study, the researcher following a structured process to Examine if the evidence is sufficient to justify the claims or assumptions made about the population or phenomenon under study. This methodological framework ensured the validity and reliability of the conclusions reached through the analysis.

a. Normality:

To decide whether a parametric or nonparametric test was necessary, the researcher tested the assumption of normality.

To check the normality test, Kolmogorov-Smirnov test is used. The following table shows the result:

Table 6.2: Kolmogorov-Smirnov Test for Normality

Test	Test value	Significance	Result
Kolmogorov-Smirnov	1.269	0.080	Accept

The data is assumed to be normally distributed. With a significance value of 0.080 (greater than 0.05), the assumption is accepted, and thus, parametric tests are selected for analysis (Ghasemi & Zahediasl, 2012)

b. Multicollinearity: Multicollinearity should be assessed before moving to the model testing.

Table 6.3: Multicollinearity Test (Dependent Variable: Decision Making - Adoption)

Constructs	Tolerance	VIF
S-comet (Sharia commitment)	0.655	1.526

S-comp (Sharia compliance)	0.378	2.646
AW (Awareness)	0.405	2.467
TPT (Transaction processing time)	0.254	3.94
FL (Flexibility)	0.198	4.042
AV (Availability)	0.182	4.501
EC (Effect communication)	0.219	4.56
PER (Personalization)	0.177	4.655
COM (Complexity)	0.315	3.175
COL (Collaterals)	0.287	3.482
COS (Costs)	0.306	3.264
ASR (Associated risk)	0.202	4.959
ACC (Accessibility)	0.209	4.774

The multicollinearity test indicated acceptable results for both tolerance and the variance inflation factor (VIF). Specifically, tolerance values were above 0.10, and VIF values were below 5 (Hair et al. 2019).

Table 6.4: Model Fit

Test	Saturated model	Estimated model
SRMR	0.094	0.095

Table (6.4) showed that the saturated and estimated model value SRMR is less than (0.10). A value less than 0.10 is considered a good fit. Henseler et al. (2009) proposed the SRMR as a measure of goodness-of-fit for PLS-SEM, which aids in preventing model misspecification.

c. Validity Measurement:

In order to validate the measures and test the hypotheses using SMART-PLS 4, we perform the following assessments:

1. Assessment of measurement model by convergent validity: We make the average variance extracted (AVE) test

The average variance extracted (AVE) is a measure of convergent validity, representing the average of the squared loadings of all indicators associated with a construct. AVE reflects how well a construct explains the variance of its indicators. An acceptable AVE value is 0.50 or higher, meaning the construct accounts for at least 50% of the variance in its indicators (Hair et al., 2019).

Table 6.5 shows that the AVE for the constructs is above the minimum threshold of 0.5, thus confirming convergent validity for Attitude toward adoption factors (ATA), Awareness (AW), Constrains Factors Effect (CFE), and Decision making -Adoption (DM-A).

Also, table (6.5), showed the high value of model constructs of Cronbach's alpha, the scores of alphas for all constructs was more than 0.7. This clarifies that the questionnaire is reliable (Fraenkel & Wallen, 2003).

Convergent validity was confirmed with values of factor loading above 0.70 as shown in table (6.5) and figure (1), and figure (2). The accepted value should be 0.70 or higher (Hair et al., 2019).

Table 6.5: Results of Reliability and Validity Analysis.

Item/Construct	Outer loading	Cronbach's alpha	Composite reliability	AVE
DMA1 <- Decision making –Adoption	0.600	0.934	0.946	0.691
DMA2 <- Decision making –Adoption	0.855			
DMA3 <- Decision making –Adoption	0.867			
DMA4 <- Decision making –Adoption	0.89			
DMA5 <- Decision making –Adoption	0.778			
DMA6 <- Decision making –Adoption	0.912			
DMA7 <- Decision making –Adoption	0.88			
DMA8 <- Decision making –Adoption	0.826			
asr1 <- Associated risk	0.929	0.888	0.931	0.818
asr2 <- Associated risk	0.846			
asr3 <- Associated risk	0.936			
aw1 <- Awareness	0.843	0.861	0.915	0.782
aw2 <- Awareness	0.887			
aw3 <- Awareness	0.921			
com1 <- Complexity	0.944	0.876	0.942	0.89
com2 <- Complexity	0.943			
cos1 <- Costs	0.899	0.791	0.905	0.827
cos2 <- Costs	0.92			
ec1 <- Effect communication	0.925	0.955	0.967	0.881

ec2 <- Effect communication	0.949			
ec3 <- Effect communication	0.946			
ec4 <- Effect communication	0.935			
fl1 <- Flexibility	0.79	0.912	0.932	0.697
fl2 <- Flexibility	0.788			
fl3 <- Flexibility	0.83			
fl4 <- Flexibility	0.89			
fl5 <- Flexibility	0.875			
fl6 <- Flexibility	0.829			
per1 <- Personalization	0.895	0.889	0.931	0.818
per2 <- Personalization	0.939			
per3 <- Personalization	0.878			
s-comet1 <- Shariah Commitment	0.723	0.813	0.896	0.73
s-comet2 <- Shariah Commitment	0.826			
s-comet3 <- Shariah Commitment	0.887			
s-comp1 <- Sharia compliance	0.826	0.751	0.847	0.735
s-comp2 <- Sharia compliance	0.887			
tpt1 <- Transaction processing time	0.86	0.835	0.89	0.67
tpt2 <- Transaction processing time	0.744			
tpt3 <- Transaction processing time	0.866			
tpt4 <- Transaction processing time	0.799			
acc1 <- accessibility	0.904	0.921	0.944	0.809
acc2 <- accessibility	0.92			
acc3 <- accessibility	0.876			
acc4 <- accessibility	0.896			
av1 <- availability	0.907	0.92	0.94	0.76
av2 <- availability	0.9			
av3 <- availability	0.884			
av4 <- availability	0.884			
col1 <- collateral requirements	0.933	0.928	0.954	0.874
col2 <- collateral requirements	0.929			
col3 <- collateral requirements	0.943			

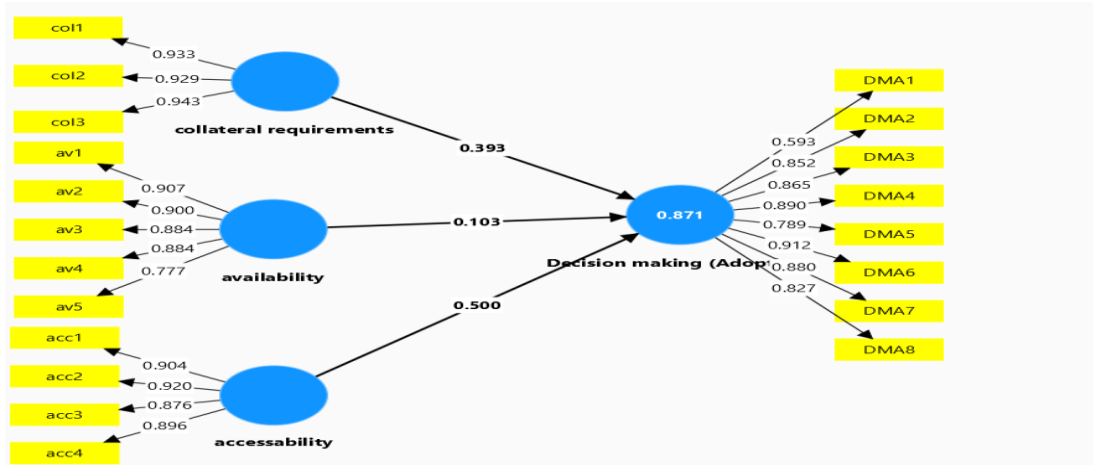


Figure 6.1: The Factor Loading of the Items of Constructs of Constrains Factors Effect

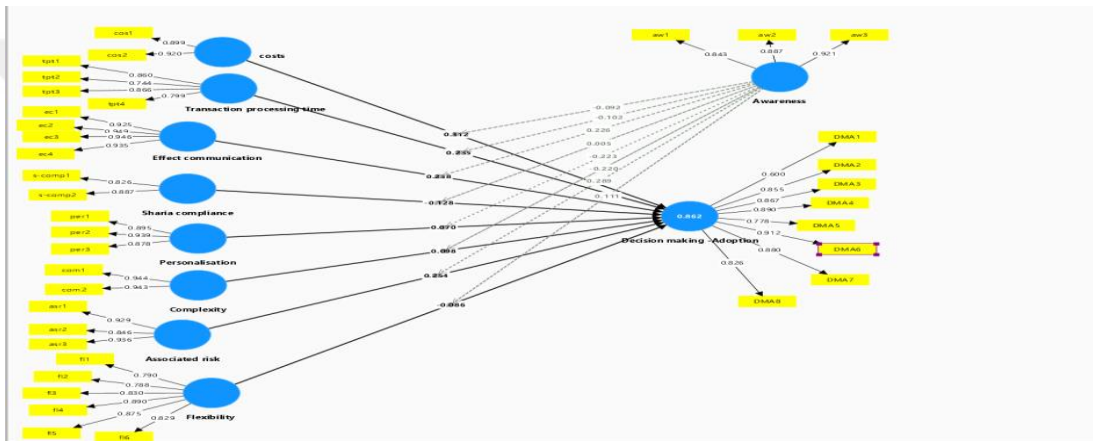


Figure 6.2: The Factor Loading of the Items of Constructs of Attitude Toward adoption Awareness' as a Moderator

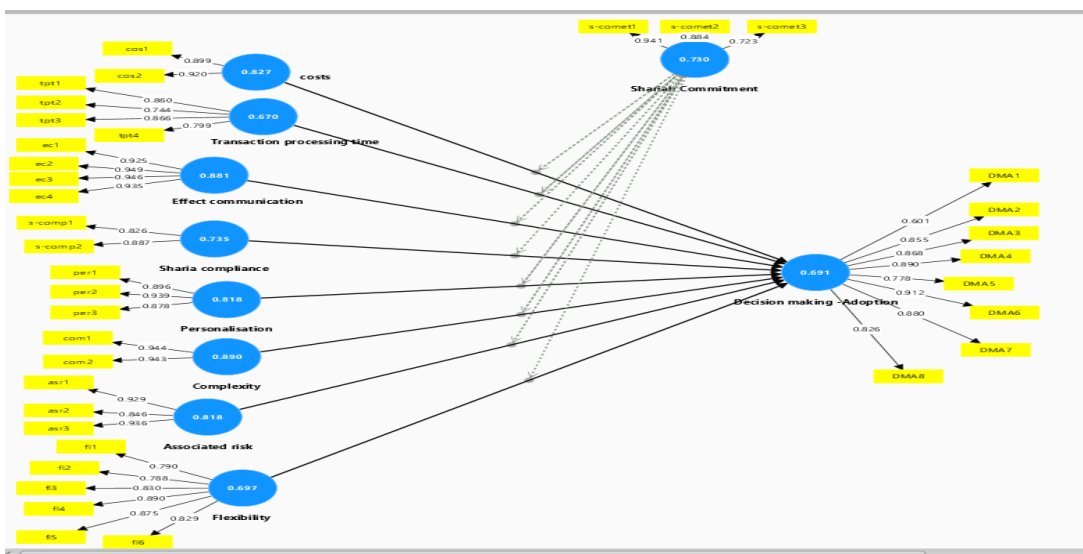


Figure 6.3: The Factor Loading of the Items of Constructs of Adoption Shariah Commitment' as a Moderator

b. Discriminant Validity

The Fornell and Larcker (1981) criterion serves as a standard approach for evaluating discriminant validity, It involves comparing the square root of the average variance extracted (AVE) with the correlation between the constructs in the model (Ab Hamid et al., 2017). This indicates that the construct should explain a greater proportion of variance in its indicators compared to the variance in other constructs. (Hilkenmeier et al., 2020). In the tables of (6.6) and (6.7) show that the Fornell and Larcker test results point to confirming the model constructs' discriminant validity.

Table 6.6: Discriminant Validity Check Using Latent Variables Correlations for Attitude towards Adoption Factors

Construct	ASR	AW	Com	DM A	Ec	Fl	Per	S- Com	Tpt	Cos
ASR	0.90									
Aw	0.65	0.88								
Com	0.80	0.7	0.94							
DMA	0.83	0.72	0.81	0.89						
Ec	0.66	0.78	0.71	0.76	0.94					
Fl	0.60	0.82	0.67	0.69	0.82	0.84				
Per	0.80	0.71	0.78	0.79	0.70	0.67	0.91			
S-Com	0.61	0.70	0.65	0.60	0.61	0.66	0.66	0.86		
Tpt	0.66	0.82	0.68	0.75	0.82	0.82	0.68	0.67	0.85	
Cos	0.85	0.69	0.81	0.85	0.72	0.68	0.79	0.62	0.68	0.90

Table 6.7: Discriminant Validity Check Using Latent Variables Correlations for Constrains Factors Effect

Constructs	Adoption	Accessibility	Availability	Collateral (Req...)
Adoption	0.831			
Accessibility	0.892	0.899		
Availability	0.779	0.734	0.872	
Collateral (Req...)	0.877	0.805	0.785	0.935

- Heterotrait-Monotrait (HTMT) Ratio of Correlation

The HTMT value should be below 0.85, or at most 0.90. If the value exceeds this threshold, it suggests a lack of discriminant validity (Ab Hamid et al., 2017). Table (6.8) presents all HTMT values that are greater than 0 and less than 0.90, which indicates the presence of discriminant validity.

Table 6.8: Heterotrait-Monotrait Ratio of Correlations (HTMT) for Attitude towards Adoption Factors

Construct	Asr	Aw	Com	DMA	Ec	Fl	Per	S-Comp	Tpt
Aw	0.731								
Com	0.891	0.798							
DMA	0.882	0.785	0.883						
Ec	0.711	0.864	0.778	0.799					
Fl	0.664	0.852	0.749	0.737	0.884				
Per	0.898	0.807	0.882	0.86	0.757	0.74			
S-Comp	0.797	0.812	0.854	0.764	0.77	0.86	0.853		
Tpt	0.763	0.842	0.791	0.841	0.752	0.820	0.778	0.862	
Cos	0.85	0.823	0.973	0.892	0.822	0.790	0.812	0.856	0.833

Table 6.9: Heterotrait-Monotrait Ratio of Correlations (HTMT) for Constrains Factors Effect

Constructs	Adoption	Accessibility	Availability
Accessibility (Acc)	0.852		
Availability (Av)	0.833	0.794	
Collateral requirements (Cr)	0.839	0.868	0.847

Assessment of structural model by Coefficient of Determination (R^2 Value)

Researcher classifies the accepted value of coefficient R^2 as substantial (0.67), medium (0.33), and weak (0.19) (Henseler et al., 2009).

Table 6.10: Results of Coefficient of Determination R^2 Analysis for Attitude towards Adoption Factors

Dependent Variable	R^2	Adjusted R^2 -
Decision making -Adoption	0.826	0.824

Table 6.11: Results of Coefficient of Determination R^2 Analysis for Constrains Factors Effect

Dependent Variable	R^2	Adjusted R^2
Decision making -Adoption	0.871	0.866

Table (6.11) implies the high coefficients of determination R^2 equals (0.826) of decision making-adoption (DMA), which means that (82.4%) of the variance in the decision making -adoption (DM-A) can be explained by attitude toward adoption factors. As implied in table (6.11), the high coefficients of determination R^2 , (87.1%) of the variance in the decision making-adoption (DM-A) can be explained by constrains factors effects

6.2 Hypothesis of Test

6.2.1 Path Analysis Using (SMARTPLS4)

H01: Awareness does not significantly affect the correlation between the attitudes towards adoption factors and (adopting) financing instruments which Islamic Banks offer.

So that we test the above hypothesis, we need to find the path coefficient results. Table (6.12) shows the results:

Table 6.12: Path Coefficient Result Shows Awareness Moderating Effect on the Relationship between the Attitude towards Adoption Factors and the Decision-Making (Adoption) Of Islamic Banking Financing Instruments

Hypothesis test	(β)	Standard deviation	T statistics	P values
Associated risk -> Adoption	-0.254	0.163	6.56	0.01**
Awareness ->Adoption	0.062	0.115	0.538	0.591
Complexity -> Adoption	-0.098	0.138	0.712	0.476
Effect communication -> Adoption	0.238	0.137	6.321	0.01**
Flexibility -> Adoption	0.086	0.128	0.67	0.503
Personalization -> Adoption	0.07	0.143	0.493	0.622
Sharia compliance ->Adoption	0.128	0.12	2.061	0.05*
Transaction processing time > Adoption	0.235	0.133	6.776	0.01**
costs -> Adoption	0.312	0.139	5.243	0.025*
Awareness x costs -> Adoption	0.092	0.197	0.468	0.64
Awareness x processing time > Adoption	0.124	0.147	2.010	0.05*
Awareness x communication ->Adoption	0.226	0.179	5.268	0.02*
Awareness x compliance -> Adoption	0.245	0.122	5.432	0.02*
Awareness x Personalization -> Adoption	0.223	0.201	5.106	0.02*
Awareness x Complexity -> Adoption	0.22	0.176	1.254	0.03*

Awareness x Associated risk -> Adoption	0.289	0.217	6.211	0.01**
Awareness x Flexibility -> Adoption	0.131	0.154	2.721	0.04*

Depending on the previous table, we test the following sub-hypothesis derived from H01:

Direct Effect:

H01.1: There is no significant effect of perspective associated liquidity risk in the enterprises on the decision-making (adoption) of Islamic banking financing instruments.

We reject the hypothesis because the P-value (0.01) is less than 0.05 and the T statistics (6.56) are greater than 1.96. This means that a significant effect of associated risk in the enterprises on the decision-making (adoption) of Islamic banking financing instruments with a negative path coefficient equal (-0.254) exists. In other words, higher perceived risks in the enterprise negatively impact the decision to use these instruments.

The findings of this research lines up with the previous research, highlighting the significance of risk apprehension in financial decision-making. In order to increase adoption in the Islamic Banks, it is important to reduce the recognized risk which is related to Islamic banking instruments.

H01.2: Awareness has no major influence on financial managers in the enterprises towards financing instruments Islamic banks offer regarding their adoption decision of these instruments.

We accept the hypothesis because the P-value (0.591) is greater than 0.05 and the T statistics (0.538) are less than 1.96. That means there is no significant influence of awareness of financial managers in the enterprises towards financing instruments offered by Islamic banks on their decision to (adopt) these instruments with a positive path coefficient equal (0.062). The positive path coefficient of indicates a minor constructive relationship, however, it is not powerful enough to significantly impact the decision-making process. Implied by the previous result, the financial managers are possibly aware of the financing tools offered by Islamic banks, yet this awareness alone does not determine the adoption decision of such instruments. In other words,

enhancing the understanding of the methods used where these instruments can satisfy business needs and introducing likely concerns could help increase adoption rates, even if awareness alone does not noticeably impact the decision-making process in the meantime.

H01.3: Complexity has no major effect on the decision-making (adoption) of Islamic banking financing instruments according to statistics.

Given that the (P-value= 0.476) is greater than 0.05 that confirm the result is not statistically significant and the (T statistics=0.712) are less than 1.96 which supports this hypotheses by being far below the critical threshold of 1.96 , so we accept the hypothesis, meaning that there is no statistically significant effect of complexity on the decision-making (adoption) of Islamic banking financing instruments with negative path coefficient (-0.098) suggests a weak and insignificant negative relationship. Both of which suggest that complexity play a weak role in influencing the decision to adopt these instruments.

H01.4: There is no statistically significant effect of effective communication on the decision-making (adoption) of Islamic banking financing instruments.

We reject the hypothesis according to the (P-value=0.01), which is less than 0.05, and the (T statistics=6.56), which is greater than 1.96. This means there is a significant effect of effective communication on the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.238), which signifies if effective communication in the enterprises increased the decision-making (adoption) of Islamic banking financing instruments increased. This is to say that effective communication and the adoption of Islamic banking financing instruments share an impressive relationship. Additionally, supported by the positive path coefficient of 0.238, it is indicated that as long as the level of positive communication within enterprises increases, the probability of adopting Islamic banking financing instruments increases as well.,

Practically, Islamic banks need to focalize their attention to enhancing strategies of communication to guarantee that financial managers and decision-makers are fully aware of what they offer. To achieve this, they can provide comprehensive product descriptions, offer trainings or workshops and maintain providing platforms for feedback and any inquiries from such enterprises. When communication is improved,

banks can assist in better decision-making, which eventually results in advancing the adoption of their financial products.

H01.5: There is no statistically significant effect of flexibility on the decision-making (adoption) of Islamic banking financing instruments.

As the (P-value=0.503) is greater than 0.05 and the T-statistic is less than 1.96 (T statistics = 0.67), we accept the hypothesis This means there is no statistically significant effect of flexibility on the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.086). In other words, the degree of flexibility offered by these instruments does not appear to be a key factor in enterprises' decisions to adopt them. For Islamic banks, this suggests that while offering flexible products can enhance the appeal of their offerings, it is likely not the main driver of adoption.

H01.6: There is no statistically significant effect of personalization on the decision-making (adoption) of Islamic banking financing instruments.

The hypothesis is accepted because the T statistics= (0.493) are less than 1.96 and the P-value= (0.622) is greater than 0.05. This means there is no statistically significant effect of personalization on the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.07), meaning that the degree of personalization offered by Islamic banking products is not a significant factor in influencing enterprises' decisions to adopt these instruments

H01.7: There is no statistically significant effect of sharia compliance on the decision-making (adoption) of Islamic banking financing instruments.

Given that the T statistics (2.061) are greater than 1.96 and the P-value (0.05) is equal to 0.05, we reject the hypothesis. Which means there is a significant effect of sharia compliance on the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.128), which means if sharia compliance in the enterprises increased the decision-making (adoption) of Islamic banking financing instruments increased.

In essence, Sharia compliance take a leading role in determining the decision-making process for enterprises, and those prioritizing following Islamic principles in their financial transactions in particular. This emphasizes that the reputation of the Islamic

banking products that they are compliant with Sharia law as well as perceived as such by enterprises.

H01.8: There is no statistically significant effect of transaction processing time on the decision-making (adoption) of Islamic banking financing instruments.

We reject the hypothesis because the T statistics (6.776) are greater than 1.96 and the P-value (0.01) is less than 0.05. This means there is a significant effect of transaction processing time on the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.235), which means if transaction processing time in the enterprises increased the decision-making (adoption) of Islamic banking financing instruments increased.

Practically, when the time for processing their transactions is quick and practical, enterprises get more encouraged to adopt Islamic banking products. Regarding the timely financial services businesses often prioritize in order to meet operational demands, the significance of a smooth and swift transaction process as a key factor in the adoption decision is highlighted.

H01.9: The cost of Islamic financing has no statistically effective effect on the decision-making (adoption) of Islamic banking instruments.

Based on the (P-value=0.025) that is less than 0.05, and (T statistics=5.243) which is greater than 1.96, we reject the hypothesis. This means there is a significant effect of the perception cost of Islamic financing on the decision-making (adoption) of Islamic banking instruments with a positive path coefficient equal (0.312), which means if the perception cost of Islamic financing in the enterprises increased the decision-making (adoption) of Islamic banking financing instruments increased.

As suggested by this, the role of the perceived cost of Islamic financing is so crucial that it influences enterprises' decisions to adopt Islamic banking products. Moreover, when enterprises assess these costs being competitive or reasonable comparing them to other financing possibilities, they are more likely to be more attracted to Islamic banking products. In other words, enterprises and businesses are keen to the costs related to Islamic financing, which suggests that cost perception is a key effect on the adoption process.

Indirect Effect:

H01.10: Awareness has no significant moderating effect on the relationship between the perception cost of Islamic financing and the decision-making (adoption) of Islamic banking financing instruments.

Given that the (T statistics=0.468) are less than 1.96 and the (P-value=0.64) is greater than 0.05, we accept the hypothesis. This means awareness has no significant moderating effect on the relationship between the perception cost of Islamic financing and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.092).

Simply, it means that the level of awareness has minor influence on the relation between cost perception and adopting Islamic banking instruments.

In essence, it does not matter how much enterprises are aware of Islamic banking products, their awareness does not play a significant role in modifying the level of influence of cost perception in their decision-making. Consequently, awareness on its own is far from increasing or decreasing the effect of perceived cost regarding the adoption of Islamic financing instruments.

H01.11: Awareness has no significant moderating effect on the relationship between the transaction processing time and the decision-making (adoption) of Islamic banking financing instruments.

In light of the fact that the (T statistics=2.010) are greater than 1.96 and the P-value is equal to (P-value=0.05), we reject the hypothesis. This means awareness has significant moderating effect on the relationship between the transaction processing time and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.124), meaning that if awareness increased the relationship between the transaction processing time and (adopt) financing instruments offered by Islamic banks increased.

Practically, the more aware enterprises are towards Islamic banking products, the more likely quicker and more competent transaction times to be valued when enterprises make their decision to approve these financing instruments. Simply put, and beside the effect that awareness has on the enterprises' knowledge regarding the products, it boosts their sensitivity to operational factors such as time processing.

H01.12: Awareness has no significant moderating effect on the relationship between the effect communication and the decision-making (adoption) of Islamic banking financing instruments.

Since the (T statistics=5.268) are greater than 1.96 and the (P-value=0.02) is less than 0.05, we reject the hypothesis. Which means awareness has significant moderating effect on the relationship between the effect communication and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.226), which means if awareness increased the relationship between the effect communication and the decision-making (adoption) of Islamic banking financing instruments increased.

As suggested by this, awareness advances the impact level of productive communication on the adoption decision of Islamic banking instruments. In practical terms, the more aware enterprises are towards Islamic banking products, the more likely they are to be positively influenced by effective communication from the banks. Simply put, and beside the importance of communication, the level of awareness among possible customers boosts the effect on decision-making.

H01.13: Awareness has no significant moderating effect on the relationship between the sharia compliance and the decision-making (adoption) of Islamic banking financing instruments.

Since the (T statistics=5.432) are greater than 1.96 and the (P-value=0.02) is less than 0.05, we reject the hypothesis. Which means awareness has significant moderating effect on the relationship between the sharia compliance and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.245), which means if awareness increased the relationship between the sharia compliance and the decision-making (adoption) of Islamic banking financing instruments increased.

In essence, when enterprises are more conscious of the principles and benefits of Sharia compliance, they are expected to prioritize it more when taking Islamic banking products into consideration. Awareness not only fosters their understanding of Sharia-compliant instruments, but also magnifies the influence of Sharia compliance in the adoption decisions.

H01.14: Awareness has no significant moderating effect on the relationship between personalization and the decision-making (adoption) of Islamic banking financing instruments.

Since (T statistics=5.106) are greater than 1.96 and the (P-value=0.02) is less than 0.05, we reject the hypothesis. Which means awareness has significant moderating effect on the relationship between the personalization and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.223), which means if awareness increased the relationship between the personalization and the decision-making (adoption) of Islamic banking financing instruments increased.

In essence, the more aware enterprises are regarding tailored features and advantages of Islamic banking products, the more likely they are to value such tailored features in the process of decision-making. Therefore, awareness helps improve their understanding and amplify the effect of tailoring features on adoption decisions.

H01.15: Awareness has no significant moderating effect on the relationship between complexity and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.03) that is less than 0.05, and (T statistics=5.106) which is greater than 1.96, we reject the hypothesis. This means awareness has significant moderating effect on the relationship between the complexity and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.22), meaning that if awareness increases, the relationship between the complexity and the decision-making (adoption) of Islamic banking financing instruments increases.

In practical terms, having further awareness of Islamic banking products results in becoming more sensitive to the intricacies concerned with these products. As a result of their amplified awareness, the complexity of the products can be more impactful on their decision-making process. Hence, enterprises when more acknowledged may find it harder to decide whether to adopt the Islamic financing options regarding their complexity.

H01.16: Awareness has no significant moderating effect on the relationship between associated risk and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.01) that is less than 0.05, and (T statistics=6.211) which is greater than 1.96, we reject the hypothesis, which means awareness has significant moderating effect on the relationship between the associated liquidity risk and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.289), which means if awareness increased, the relationship between the associated risk and the decision-making (adoption) of Islamic banking financing instruments increased.

As suggested by this, awareness enhances the effect of perceived associated liquidity risk on the adoption of Islamic banking financing instruments.

Practically, enterprises when acquiring higher awareness levels, they become less sensitive to the liquidity risks associated with Islamic banking financing instruments.

H01.17: Awareness has no significant moderating effect on the relationship between flexibility and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.04) that is less than 0.05, and (T statistics=2.721) which is greater than 1.96, we reject the hypothesis. This means awareness has significant moderating effect on the relationship between flexibility and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.131), meaning that if awareness increased, the relationship between flexibility and the decision-making (adoption) of Islamic banking financing instruments increased.

In other words, enterprises with a higher level of awareness are more likely to value the flexibility offered by Islamic banking products when making their financing decisions. Flexibility in financial products becomes a more crucial factor as enterprises become more knowledgeable about the options available to them

H02: Shariah commitments have no significant moderating effect on the relationship between the attitude towards adoption factors and the decision-making (adoption) of Islamic banking financing instruments.

To test the above hypothesis, we need to find the path coefficient results. Table (6.13) shows the results:

Table 6.13: Path Coefficient Result Shows Shariah Commitments Moderating Effect on the Relationship between the Attitude towards Adoption Factors and the Decision-Making (Adoption).

Hypothesis test	(β)	Standard deviation	T statistics	P values
Shariah commitments x costs -> Decision making –Adoption	- 0.212	0.165	2.894	0.05*
Shariah commitments x processing time -> Decision making –Adoption	- 0.231	0.161	3.067	0.04*
Shariah commitments x communication -> Decision making –Adoption	- 0.26	0.159	4.065	0.02*
Shariah commitments x Sharia compliance -> Decision making –Adoption	0.281	0.125	4.498	0.02*
Shariah commitments x Personalization -> Decision making –Adoption	-0.258	0.149	3.732	0.03*
Shariah commitments x Complexity -> Decision making –Adoption	-0.229	0.161	3.424	0.03*
Shariah commitments x Associated risk -> Decision making –Adoption	-0.333	0.211	6.58	0.01**
Shariah commitments x Flexibility -> Decision making –Adoption	-0.26	0.152	3.326	0.04*

Depending on the above table, we test the following sub-hypothesis derived from H02: H02.1: Shariah commitments have no significant moderating effect on the relationship between the perception cost of Islamic financing and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.05) that is equal 0.05, and (T statistics=2.894) which is greater than 1.96, we reject the hypothesis. This means that Shariah commitments have significant moderating effect on the relationship between the perception cost of Islamic financing and the decision-making (adoption) of Islamic banking financing instruments with a path coefficient equal (0.212).

The analysis reveals that Shariah commitments significantly moderate the relationship between the perception cost of Islamic financing and the decision-making (adoption) of Islamic banking financing instruments.

In other words, Shariah commitments has a positive effect, which means that the greater the Sharia commitment is, the less is the influence of financing costs as a factor in making the decision to adopt Islamic finance.

H02.2: Shariah commitments have no significant moderating effect on the relationship between the transaction processing time and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.04) that is less than 0.05, and (T statistics=3.067) which is greater than 1.96, we reject the hypothesis. This means Shariah commitments have significant moderating effect on the relationship between the transaction processing time and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.231), meaning that the greater the Sharia commitment, the less the influence of transaction processing time as a factor in making the decision to adopt Islamic finance.

H02.3: Shariah commitments have no significant moderating effect on the relationship between the effect communication and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.02) that is less than 0.05, and (T statistics=4.065) which is greater than 1.96, we reject the hypothesis, which means Shariah commitments have significant moderating effect on the relationship between the effect communication and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.26), which means if Shariah commitments increased the effect of communication as factor of influencing decision-making (adoption) of Islamic banking financing instruments decrease.

H02.4: Shariah commitments have no significant moderating effect on the relationship between the sharia compliance and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.02) that is less than 0.05, and (T statistics=5.498) which is greater than 1.96, we reject the hypothesis, which means Shariah commitments have significant moderating effect on the relationship between the sharia compliance and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.281), which means if Shariah commitments increased

the effect of sharia compliance on decision-making (adoption) of Islamic banking financing instruments increased.

H02.5: Shariah commitments have no significant moderating effect on the relationship between personalization and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.03) that is less than 0.05, and (T statistics=3.732) which is greater than 1.96, we reject the hypothesis, which means Shariah commitment has significant moderating effect on the relationship between the personalization and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.258), which means if Shariah commitments increased the effect of personalization on the decision-making (adoption) of Islamic banking financing instruments decrease.

H02.6: Shariah commitments has no significant moderating effect on the relationship between complexity and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.03) that is less than 0.05, and (T statistics=3.424) which is greater than 1.96, we reject the hypothesis, which means Shariah commitments have significant moderating effect on the relationship between the complexity and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.229), which means if Shariah commitments increased, the effect of complexity on decision-making (adoption) of Islamic banking financing instruments decrease.

H02.7: Shariah commitments have no significant moderating effect on the relationship between associated risk and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.01) that is less than 0.05, and (T statistics=6.58) which is greater than 1.96, we reject the hypothesis, which means Shariah commitments have significant moderating effect on the relationship between the associated risk and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.333), which means if Shariah commitments increased, the effect of associated liquidity risk on decision-making (adoption) of Islamic banking financing instruments decrease.

H02.8: Shariah commitments have no significant moderating effect on the relationship between flexibility and the decision-making (adoption) of Islamic banking financing instruments.

Based on the (P-value=0.04) that is less than 0.05, and (T statistics=3.326) which is greater than 1.96, we reject the hypothesis, which means Shariah commitments have significant moderating effect on the relationship between flexibility and the decision-making (adoption) of Islamic banking financing instruments with a positive path coefficient equal (0.26), which means if Shariah commitments increased, the effect of flexibility on decision-making (adoption) of Islamic banking financing instruments decrease.

Constrains Factors Effect

H03: There is no statistically significant of effect to constrain factors on the decision-making (adoption) of Islamic banking financing instruments.

To test the above hypothesis, we need to find the path coefficient results. Table (6.14) shows the results:

Table 6.14: Path Coefficient Result Shows the Constrains Factors Effect on the Decision-Making (Adoption) of Islamic Banking Financing instruments

Hypothesis test	(β)	Standard deviation	T statistics	P values
Accessibility -> (Adoption)	0.50	0.112	4.471	0.00**
Availability -> (Adoption)	0.103	0.08	1.289	0.20
Collateral requirements -> (Adoption)	0.393	0.119	3.292	0.00**

Depending on the above table we test the following sub-hypothesis derived from H03:

H03.1: There is no significant effect of accessibility of Islamic banking financing instruments on decision-making (adoption) by enterprise's financial managers.

Based on the (P-value=0.00) that is less than 0.05, and (T statistics=4.471) which is greater than 1.96, we reject the hypothesis, which means there is significant effect of accessibility of Islamic banking financing instruments on decision-making (adoption) by enterprise's financial managers with a positive path coefficient equal (0.50), which means if accessibility of Islamic banking financing instruments increased the decision-making (adoption) by enterprise's financial managers increased.

H03.2: There is no statistically significant effect of availability of Islamic banking financing instrument on decision-making (adoption) by enterprises financial managers. Based on the (P-value=0.20) that is greater than 0.05, and (T statistics=1.289) which is less than 1.96, we accept the hypothesis, which means there is no statistically significant effect of availability of Islamic banking financing instrument on decision-making (adoption) by enterprises financial managers with a positive path coefficient equal (0.103).

The results show that the availability of Islamic banking financing options does not play a significant role in influencing the decisions of financial managers in enterprises when it comes to adopting these tools.

H03.3: There is no significant effect of collateral requirements on decision-making (adoption) by enterprise's financial managers.

Based on the (P-value=0.00) that is less than 0.05, and (T statistics=3.292) which is greater than 1.96, we reject the hypothesis, which means there is significant effect of collateral requirements on decision-making (adoption) by enterprise's financial managers with a positive path coefficient equal (0.393), which means if collateral requirements increased the decision-making (adoption) by enterprise's financial managers increased

6.3 Results Related to the Analysis of Personal Interview Questions

The researcher conducted an interview with (7) stakeholders in Islamic banks operating in Palestine, especially in the corporate and project finance department, to learn about the financing tools available in the bank, and their effectiveness and suitability for financing operational expenses and working capital for small and medium enterprises, in addition to the challenges and obstacles facing these companies. Enterprises to obtain financing, the researcher used the purposive sampling method, and the study sample was divided into (6 males and one female), and the following tables show the question, answers, frequency, and percentage that the researcher obtained during the interviews:

1. The first question: What are the most prominent financing tools provided by the Palestine Islamic Bank that are directed to small and medium enterprises?

The following table represents the answer to the first question and shows the answer, frequency, and percentage:

Table 6.15: Frequency and Percentage of Results of Answering the Questions.

Answer	Freq...	Perc...
Murabaha: The basic and most widely used tool. It is when the bank buys assets and sells them to the client at a specified profit.	7	100%
Istisna: A tool which is used to help financially backing projects in which there are manufacturing or building assets based on customer request.	6	86%
Bargaining: It is used to finance the purchase of assets, where the price is determined based on a negotiation between the merchant and the customer, where the bank agrees with the merchant on a certain percentage of the selling price, and the sale takes place between the merchant and the customer, and the customer pays installments to 5the bank, while the customer obtains the value of the vehicle directly from the bank.	5	71%
Ijara Muntahia Bialtamalok: It is used to finance assets by leasing them to the customer with the possibility of transferring ownership at the end of the lease period.	5	71%
Tawarruq: It is considered an emergency product used to address emergency liquidity problems, and it has recently been introduced as an additional tool.	5	71%
Mudaraba financing: Provided to support projects through a partnership between the bank and the client, where the bank provides the money and the client manages the project.	5	71%

It is clear to us from the previous table (6.15) that the “Murabaha” tool is the basic and most widely used tool, where the bank buys assets and sells them to the customer at a specific profit. It ranked first with a percentage of (100%), and the “Istisna’a tool, which is used to finance projects” came first. Which includes manufacturing or building assets based on the customer’s request” came in second place with a percentage of (86%). As for the rest of the tools, which included bargaining, which is used to finance the purchase of assets, the price is determined based on a negotiation between the merchant and the customer, where the bank agrees with the merchant on a certain percentage of the selling price, and the sale takes place between the merchant and the customer and the customer pays installments to the bank while the customer gets the value of the vehicle directly from the bank. Ijara ending with ownership is used to finance assets by leasing them to the customer with the possibility of transferring ownership at the end of the lease period. As for Tawarruq, it is considered

an emergency product used to confront urgent liquidity problems. It was recently introduced as an additional tool. It also provides Mudaraba financing to support projects through a partnership between the bank and the client, where the bank provides the money and the client manages the project. It obtained the same percentage and amounted to (71%).

2. The second question: What are the financial instruments provided by Islamic banks intended to finance operating expenses and working capital needs?

The following table represents the answer to the second question and shows the answer, frequency, and percentage:

Table 6.16: Frequency and Percentage of Results for Answering the Question About Financial Instruments Allocated to Finance Operational Expenses and Working Capital During the Interview.

Answer	Frequency	Percentage
Islamic Bank does not provide cash financing directly.	7	100%
Using the purchase financing product to finance part of the working capital.	7	100%
Introducing the Tawarruq product as a temporary means to address the liquidity problem.	6	86%
Overdraft without commissions, which are considered emergency and fall under the heading of Qard Al-Hassan.	5	71%

The Table 6.16 above explicitly shows that the study sample solidly approved that Islamic banks provide no direct cash financing and ranked first with a percentage of (100%). Instead, they use financial instruments tailored to finance operational expenses and working capital from “Using the Purchases Financing Product to Finance Part of the Working Capital,” which received unanimous agreement from the sample with a percentage of (100%), followed by “Introducing the Tawarruq product as a temporary means to address the liquidity problem,” receiving a percentage of (86%), and the “account statement without commissions tool, which is considered emergency and falls under the heading of Qard Hasan” received a percentage of (71%) from the study sample size.

3. Question Three: What is the ability of financing tools to provide the necessary liquidity for operational expenses?

The following table represents the answer to the third question and shows the answer, frequency, and percentage:

Table 6.17: Frequency and Percentage of Results for Answering the Question about the Ability of Financing Tools to Provide the Necessary Liquidity for Operational Expenses during the Interview.

Answer	Frequency	Percentage
Clients can employ murabaha, ijara and musharaka instruments to support liquidity, such as purchasing goods on murabaha and holding cash.	7	100%
Organizations can use the purchase financing product to finance part of their working capital, which helps in managing operational expenses effectively.	6	86%
The financing tools provided by the bank meet the needs, as they contribute to financing the expansion and purchase of assets.	5	71%

It is clear to us from Table 6.17 above that the study sample unanimously agreed that customers can employ Murabaha, Ijara, and Sharing tools to support liquidity, such as buying goods on Murabaha and keeping cash, and it ranked first with a percentage of (100%). It was followed by “Enterprises can use the purchase financing product to finance a portion of working capital, which helps in managing operational expenses effectively,” which received a percentage of (86%), followed by “The financing tools provided by the bank work to meet needs, as they contribute to Financing the expansion and purchase of assets, which received a percentage of (71%).

4. Question four: How appropriate are the financing tools provided by Islamic banks to provide the necessary liquidity for operational expenses?

The following table represents the answer to the third question and shows the answer, frequency, and percentage:

Table 6.18: Frequency and Percentage of Results for Answering the Question about the Ability of Financing Tools to Provide the Necessary Liquidity for Operational Expenses during the Interview.

Answer	Frequency	Percentage
Clients can employ Murabaha, Ijara and Musharaka tools to support liquidity, such as purchasing goods on Murabaha and holding cash.	7	100%

Projects can use the Procurement Finance product to finance a portion of working capital, which helps in managing operational expenses effectively.	6	86%
The financing tools provided by the bank meet the needs, as they contribute to financing the expansion and purchase of assets.	5	71%

It is clear to us from Table 6.18 above that the study sample unanimously agreed that customers can employ Murabaha, Ijara, and Musharakah tools to support liquidity, such as buying goods on Murabaha and keeping cash, and it ranked first with a percentage of (100%), followed by “Enterprises can use the product Financing purchases to finance part of the working capital, which helps in managing operational expenses effectively,” which received a percentage of (86%), It was followed by “Enterprises can use the purchase financing product to finance a portion of working capital, which helps in managing operational expenses effectively,” which received a percentage of (86%), followed by “The financing tools provided by the bank work to meet needs, as they contribute to Financing the expansion and purchase of assets, which received a percentage of (71%).

- Question five: What is the influence of religious considerations compared to the quality and efficiency of tools when making a financing decision?

The following table represents the answer to the fourth question and shows the answer, frequency, and percentage:

Table 6.19: Frequency and Percentage of Results for Answering the Question about the Influence of Religious Considerations Compared to The Quality and Efficiency of Tools When Making A Funding Decision during the Interview.

Answer	Freq	Perc
The first section of customers comes to the Islamic bank with a basic religious motive, regardless of the quality of service and costs.	7	100%
Other aspects such as service quality and product cost are taken into consideration.	6	86%
Some come because of Islamic Bank's policy regarding late payments, as the bank does not charge any commissions or costs due to late payments.	6	86%
Some customers come to the bank to maintain their community image, but they are not interested in implementing the transaction in a legal manner.	5	71%

According to table 6.19, it is shown that customers are divided into several categories. The first category is classified due to customers being the ones who choose the Islamic Bank for religious aspects, but not for the quality of service and costs, which constituted a percentage of 100%. Second type of customers are the ones who follow other aspects, such as the quality of service and the cost of the product, in addition to the religious aspect, and they constitute a percentage of (86%). Third category is that some choose the Islamic Bank because of its policy regarding late payments, as the bank does not require any interests or costs because of delay in payment, and the percentage constitutes (86%). Finally, some customers choose Islamic Bank to maintain their image among the public, yet legally implementing the transaction is not one of their promises.” They both obtained the same percentage (71%).

6. Question six: What is your perception about awareness and understanding about Islamic financing instruments between enterprises owners?

Table 6.20: Frequency and Percentage of Results of Answering the Question Regarding the Level of Awareness and Perception About Islamic Financing Instruments During the Interview, Arranged in Descending Order According to The Percentage of Answers.

Answer	Frequency	Percentage
The vast majority of clients have limited awareness and understanding about the nature of Islamic finance and Islamic financial instruments.	6	86%
Awareness and understanding of the nature of Islamic financial instruments and the nature of contracts is higher among corporate clients than among individual clients.	6	86%
Bank employees play a vital role in explaining the nature of Islamic transactions and financing tools to customers, and explaining how they can benefit from these tools in a manner consistent with Sharia principles.	7	100%

It is clear to us from the previous table 6.20 that the vast majority of customers have limited awareness and clear understanding about the nature of Islamic finance and Islamic financial instruments, and the percentage reached (86%), and because of that, “the bank’s employees play a vital role in explaining the nature of transactions and financing instruments.” Islamic law to customers, and explaining how they can benefit

from these tools in a manner consistent with Sharia principles” and received a percentage of (86%).

Awareness and understanding of the nature of Islamic financial instruments and contracts is higher among corporate clients than among retail clients: 86% of respondents believe that corporate clients have greater awareness and understanding of Islamic financial instruments compared to retail clients. This is to suggest that companies are aware of such tools possibly as a result of their more complex business experiences and financial needs.

7. Question seven: How do finance managers in Islamic banks remark the suitability and effectiveness of the financing tools that Islamic banks offer in order to finance operating expenses and cover the working capital needs?

The answers to the seventh questions is represented in table 6.21 showing the frequency and percentage.

Table 6.21: The Frequency and Percentage of the Answers of the Aforementioned Question Regarding the Suitability and Effectiveness of the Financing Instruments Currently Provided to Finance Operating Expenses and Financing the Working Capital Deficit.

Answer	Freq...	Perc...
Islamic banks do not provide direct financing for operational or cash expenses, but SMEs can use other available products to secure the necessary liquidity, which reflects the flexibility of financing tools to meet their needs.	7	100%
Enterprises' liquidity deficit can be partially overcome through Islamic financing, such as financing purchases and retaining cash to meet other expenses.	6	86%
Tawarruq provides an effective solution to the liquidity problem, as it is considered a means of meeting emergency liquidity needs.	6	86%

The previous table 6.21 shows that the suitability and effectiveness of the financing tools currently provided for financing operational expenses and financing the working capital deficit align with the paragraph that says, “Islamic banks do not provide direct financing for operational or cash expenses, but small and medium enterprises can” as well as “Using other available products to secure the necessary liquidity, which reflects

the flexibility of financing tools in meeting their needs.” This is classified with a percentage of (100%) at first.

This was followed by the paragraph that talks about “the liquidity deficit of enterprises can be partially overcome through Islamic financing, such as financing purchases and keeping cash to meet other expenses,” and it received a percentage of (86%), and it got the same percentage as the paragraph that talks about “Tawarruq provides Effectively solving the liquidity problem, as it is considered a way to meet emergency liquidity needs.”

8. Question eight: What is the perception of finance officials in Islamic banks about the level of satisfaction among Islamic bank clients with the financing tools provided?

The following table represents the answer to the seventh question and shows the answer, frequency, and percentage:

Table 6.22: Frequency and percentage of Results of Answering the Question about the Level of Customer Satisfaction with the Financing Tools Provided During the Interview, Arranged in Descending Order According to the Percentage of Answers.

Answer	Freq	Per
The level of customer satisfaction with the quality of the financial products provided by the Palestine Islamic Bank is high, and the reason is that the bank shows leniency in some cases, such as customers being late in paying some installments, as they are not charged interest for the delay, which reflects positively on customer satisfaction and their trust in the bank.	6	86%
Customer are equally satisfied regarding the services and tools of finance provided by both Islamic and conventional banks.	2	29%

In Table 6.22, it is obviously analyzed that “the level of customer satisfaction with the quality of the financial products provided by the Palestine Islamic Bank is high” and that is due to the leniency the bank shows in some cases, as in customers’ delay in paying some installments, where they do not charge them any amount of interest. In the Islamic Bank, the delay in payments reflect positively on customer satisfaction and their confidence in the bank reached a percentage of (86%), which is the highest. Nevertheless, the ones who said the opposite as “customer satisfaction being equal towards the services and financing tools provided by both types of Islamic and commercial banks” reached a percentage of (29%).

9. Question nine: What are the complications enterprises face in terms of accessing Islamic banking financing tools?

The answer to this question is presented in the following table report the answer is shown in frequency and percentage:

Table 6.23: Frequency and Percentage of Results for Answering the Question about the Obstacles Facing Establishments in Accessing Islamic Banking Financing Tools during the Interview.

Answer	Freq	Per
Inadequate sources of repayment: Owners of establishments face difficulty in providing sufficient sources to repay financing	6	86%
Lack of sufficient guarantees: Establishments lack the guarantees required to obtain financing.	6	86%
Previous credit experience: Negative credit records hinder the ability to obtain financing.	5	71%
Lack of economic feasibility: The lack of clear economic feasibility of financing affects financing decision-making.	5	71%
The nature of contracts in Islamic finance requires additional procedures to ensure the legitimacy of transactions according to Islamic law, which may require longer time compared to conventional contracts.	5	71%
Others show skepticism due to the lack of actual ownership of the commodity, as ownership is based on a judgmental perception rather than an actual one. This discrepancy results from the fact that the difference between Islamic operations and commercial banks may sometimes be unclear to the customer.	4	57%

It is clear to us from the previous table 6.23 that there are many obstacles facing establishments in accessing Islamic banking financing, which are concentrated in both “insufficient sources of repayment: owners of establishments face difficulty in providing sufficient sources to repay financing,” and “Lack of sufficient guarantees: Establishments lack the provision of guarantees required to obtain financing.” Both of them obtained the same percentage of (86%), which is the highest. The obstacles were “previous credit experience: negative credit records hinder the ability to obtain financing,” “lack of economic feasibility: the lack of a clear economic feasibility of financing affects financing decision-making,” and “the nature of contracts in Islamic finance requires additional procedures to ensure... The legitimacy of transactions according to Islamic Sharia, which may require a longer time compared to traditional contracts.” The same percentage reached (71%)

While it was observed that “others show skepticism due to the lack of actual ownership of the commodity, as ownership depends on the judgmental perception and not the actual one. This discrepancy results from the fact that the difference between Islamic operations and commercial banks may sometimes be unclear to the customer” at the lowest percentage and amounted to (57 %).



RESULTS AND CONCLUSION

Questioner Results

- 1) Lack of understanding and awareness among enterprises may affect their adoption of Islamic financial instruments. Enhancing their awareness of how Islamic financial instruments meet working capital and short-term financing needs may increase their adoption. Islamic products can be employed to meet short-term financing needs such as financing purchases, but enterprises may not realize this potential if these tools are not adequately explained. This requires Islamic banks to increase awareness among customers of the nature and possibility of employing the products they offer.
- 2) Enterprises need to practically convey their worries about how Islamic products work, and in financing short-term needs and operating expenses in particular. The rate of adopting the Islamic financing tools arises if Islamic banks explain the supportive effect of their products over the operational liquidity and day-to-day financial management.
- 3) The more complex Islamic financing instruments, such as the multiple contracts required in financing operations, are, the less appealing it is for institutions to adopt them. When such processes are less complicated, these instruments get more attractive to enterprises, as swift financing needs are less likely to abide extensive and complex procedures.
- 4) The high collateral requirements set by Islamic banks are unsuitable when it comes to short-term financing for working capital and operating expenses, which eventually leads to the enterprises to less likely adopt such instruments and products. Unfortunately, institutions may view firm collateral requirements as difficult and complex, which discourages them from committing to Islamic products when in need for short-term financing. Therefore, Islamic banks need to create more suitable guarantee methods that line up with short-term financing needs.
- 5) The motives for adopting Islamic finance tools for quick and short-term financing share the general motives for dealing with Islamic banks, such as effective communication, allocation, Sharia compliance, costs, and guarantee requirements:

a. Communication is essential to encourage enterprises adopt Islamic finance tools. Therefore, when banks determine a policy of positive communication with customers, they can explain efficiently the specifications of their products according to the customer's needs, and they would possibly see higher adoption of their products. The effective connection between communication and adoption shows that effective communication helps banks make financial managers not to think twice about the possibility of employing Islamic financial instruments for their operational needs.

b. Sharia compliance is a key factor in corporate decisions. When institutions see that the products offered by Islamic banks fully comply with Sharia principles, they are more likely to adopt them, especially institutions with strong religious commitments. Here, the importance of raising awareness about the legal basis of the products offered by Islamic banks is highlighted.

c. Costs, such as profit rates and fees, as a factor related to Islamic finance significantly affects the adoption of Islamic products. If the suggested costs of Islamic Banks compete the conventional alternatives, enterprises tend to choose Islamic finance. Consequently, solutions with effective costs will make Islamic products more appealing.

d. Cost Awareness is a key factor in the adoption process of Islamic banking. In contrary to the conventional banks, Islamic banks do not require further costs or commissions over the delaying installments, which makes their financing costs different from the costs of the traditional banks. Consequently, when enterprises or customers are well-informed and full-aware of the perceived costs compared to traditional alternative finances, they are more likely to choose, Islamic finance. This is to say that Islamic Banks needs to raise awareness about the nature of the costs of their financing products.

e. Awareness of the nature of the products offered by Islamic banks makes institutions more able to employ them in ways that reduce the length of transactions. Such as financing purchase ceilings, which can reduce transaction times to finance working capital, where speed in accessing funds is essential. This requires Islamic banks to raise awareness of how to use their products to shorten the time of financing operations.

f. Compliance of the products offered by Islamic banks with Sharia is a high priority for the most committed institutions. Therefore, Islamic banks must emphasize the

Shariah compliance of their products to attract institutions looking for Shariah-compliant financing solutions.

g. Products Complexity may be an obstacle in the process of adoption. Islamic banks, therefore, should seek providing simple and comprehensive financing solutions to advance adoption.

- 6) Awareness regarding Islamic banking products is important for institutions as they are more likely to be less sensitive to liquidity risk, since they can use the products to cover their working capital needs and operational expenses. To achieve this, Islamic banks should bear in mind to enhance awareness among customers.
- 7) Compliance with Sharia is a principal factor for enterprises which acquire solid religious commitments. Such commitments do not get greatly affected by other factors such as the cost, the transaction processing time and the service quality. Their main focus is how aligned they are with Islamic principles. Therefore, Islamic banks should take advantage of this and ensure their commitment to Sharia when they advertise for their products.

Interviews Results

1. Islamic financing instruments such as Murabaha, Ijarah, Tawarruq, Istisna'a and Salam offer a variety of options to support small and medium enterprises. While these instruments provide financing for assets and expansion, they may be less suitable for meeting day-to-day liquidity needs. Enterprises need to use a combination of these instruments to meet different financing needs, and improving awareness among clients on how to use these tools effectively.
2. Islamic financing instruments such as Murabaha, Tawarruq, Ijara, Istisna'a and Salam offer a variety of opportunities to cover the needs of small and medium enterprises, whether it is associated with purchasing assets or securing cash liquidity. Nevertheless, although these instruments provide financing for assets and expansion, they may be limited in meeting daily liquidity needs.
3. From several interviews, it is evident that religious motivations significantly influence the preference for Islamic banks. Some customers prefer to deal with institutions that work according to the Islamic Sharia. On the other hand, they may also be interested in the quality and effectiveness of the products, as some

customers find Islamic finance probably more competitive in cost when compared to traditional banks.

4. There is a difference in the level of awareness among customers, which constitutes an obstacle for some of them due to the lack of knowledge of Islamic financial instruments. Islamic banks offer awareness efforts to their clients by explaining the nature of their products and how to benefit from them. This disparity in awareness may impact how enterprises use and evaluate these instruments.

Comparative Analysis between the Results of the Questionnaire and Interviews

The comparison between the questionnaire and the interviews has shed light on the Islamic financing instruments and their interaction with SMEs. Below, a comparison between the questionnaire analysis and the interview analysis will be provided, showing the differences and similarities between the two:

1- Challenges in Meeting Daily Liquidity Needs:

- The questionnaire: indicates that Islamic instruments are effective for financing assets and expansion, but they may face challenges in providing daily liquidity. Enterprises need a mix of tools to meet different financing needs.
- Interviews: confirm that instruments such as Murabaha and Tawarruq support assets and projects but may be less effective in meeting daily cash needs. There is a need to improve or add new tools to better support operational expenses and working capital.

2- The Effect of Awareness:

- Questionnaire: It is needed to raise the awareness among customers regarding the usage of Islamic financial instruments in an effective manner.
- Interviews: It is shown that there is a clear difference in the level of awareness among customers, which affects how enterprises use such tools. It is also comprehended that banks acquire an educational role to explain the nature of the products and methods of acquiring their benefits.

3- The Influence of Religious Motives:

- Questionnaire: It is noted that religious motives play a main role in taking Islamic banks into consideration, however, there is also interest in the quality and efficiency of the products.
- Interviews: confirm that religious motives are a major factor in adopting Islamic finance tools, but there is also concern about costs and quality of products.

4- Level of Understanding and Adoption of Islamic Tools:

- Questionnaire: It focuses on the fact that there is a lack of understanding and awareness among establishments about how to use Islamic financial instruments effectively.
- Interviews: Facilities possessing previous experience are more aware of the tools, while new ones are burdened with an absence of adequate knowledge. As a result, it is suggested by this that understanding and adoption are not even among all groups.

5- Complexity of Tools and Requirements of Collateral:

- Survey: It is pointing to that the complexity of tools and assurance requirements can be a burden to taking the decision of adoption.
- Interviews: High collateral requirements are considered inappropriate for the nature of short-term financing, but there is an indication that the complexity of the instruments may also be an obstacle in some cases.

6- Responding to New Tools and Modifications:

- Questionnaire: Recommends improving the diversity of tools offered to meet a broader range of financing needs.
- Interviews: They indicate that Islamic banks rely heavily on tools such as Murabaha and Tawarruq, and need to improve or add new tools to support operational expenses.

RECOMMENDATIONS

In accordance to the analysis, the effectiveness of Islamic financing instruments and to better support SMEs can be developed by following recommendations suggested below:

1) Increase Awareness and Education

- Developing awareness programs: Islamic banks must develop comprehensive awareness programs for their customers, explaining how to use Islamic financial instruments effectively to meet their financing needs.
- Workshops and training: Organizing workshops and training courses for small and medium enterprises to increase their understanding of how to use Islamic products to meet their liquidity needs and operational expenses.

2) Simplify Processes

- Improving financing procedures: Simplifying financing processes to reduce the complexities associated with contracts and procedures, making them more attractive to establishments that need quick and efficient financing.
- Ease collateral requirements: Review and simplify collateral requirements to be more suitable for short-term financing and operational expenses, which may increase the adoption of Islamic instruments.

3) Developing New Financing Tools

- Introducing new financing tools: To boost the ability of enterprises dealing with operational expenses. Financing tools that meet daily liquidity needs and working capital must be developed.
- Tailoring flexible tools: Rapid financing operational expenses are examples of compatible short-term financing methods provided by Islamic banks like musharakah line of credit, Murabahah line of credit, Islamic crowdfunding and Islamic supply chain financing.

4) Enhance Communication with Customers

- Effective communication: Through positive communication with customers via different methods and channels such as providing personal advice and guidance to

clients, the advantages of and methods benefiting from Islamic tools are to be clarified. This includes.

- Customizing solutions: Direct solutions financially tailored must be developed to meet the needs of small and medium enterprises and ensemble the nature of their activity and financing requirements

5) Improve Costs and Transparency

- Clarifying costs: It highlights the need to be more transparent regarding the costs related to the Islamic financing instruments and sure that such costs are more considerable than the costs of the conventional financing.
- Cost Optimization: Looking for ways to reduce costs associated with Islamic finance, such as providing additional benefits to long-term financing clients.

6) Enhancing Sharia Compliance

- Compliance Review: The Islamic bank must demonstrate its commitment to Islamic Sharia rules regarding financial instruments, and transparency regarding the Sharia standards followed must be increased.
- Customer Involvement: improve awareness to their clients about the Sharia compliance of the products and explaining how they comply with Islamic principles.

7) Improve Rating and Feedback

- Collect Feedback: Developing an effective system for collecting customer feedback about the tools and services provided in a regular basis, and eventually taking this feedback into consideration to expand products and services.
- Performance evaluation: In a constant basis, monitoring and evaluating the performance of financial instruments must be done in order to confirm that they cover the market and customer needs and achieve financing purposes.

CONTRIBUTION

The contribution of the research to the study of Islamic financing tools and their suitability for financing operating expenses and working capital in small and medium enterprises is summarized in the following points:

1) Analyzing the Effectiveness of Islamic Financing Instruments;

- Determining the suitability of the instruments: The research analyses in details how Islamic financing instruments meet the needs of small and medium enterprises, to the needs of financing operating expenses and working capital in particular.
- Comparison between tools: In comparison with the traditional tools, the efficiency of Islamic financing tools as of Murabaha, Tawarruq and Ijara in covering the several needs of enterprises is effectively conveyed according to the research Identifying obstacles and challenges
- Highlighting challenges: The research clarifies the challenges facing the SMEs while using Islamic financing instruments, such as absence of day-to-day liquidity and the top collateral requirements.
- Identifying obstacles to understanding: In the research determines the level of knowledge of Islamic tools and their adoption is determined. The research also highlights the challenges impacting the efficiency of utilizing these tools, including the complexity of procedures and lack of awareness.

2) Suggesting Improvements and Recommendations:

- Providing practical recommendations: Certain recommendations set by the research for SMEs to improve their use of Islamic finance instruments, such as developing new tools, simplifying processes, raising awareness and developing their knowledge.
- Policy guidance: With the guidance provided by the research, Islamic banks would be guided on how to enhance their offers to better cover the needs of SMEs.

3) Highlight Motivations and Interests

- Understanding motivations for choice: The research demonstrates how religious, quality and efficiency motivations influence entities' selection of Islamic financing instruments, helping banks tailor their offerings to meet these motivations.

- Attention to costs and compliance: The research contributes to identifying the importance of costs and Sharia compliance in financing decisions, which enhances the ability of banks to provide competitive and Sharia-compliant products.

4) Contribution to Academic Literature

- Providing new data and information: The research develops the academic literature when providing new data and information on the adoption of Islamic financing instruments in regards to small and medium enterprises.
- Analysis based on field data: For the results to be reliable and deep, the research analysis is based on field data through distributing questionnaires and conducting interviews.

5) Support Applied Research

- Applying the results on the ground: The research provides tools and methods that can be used by banks and enterprises to directly apply the practical results, which helps improve the financial and operational performance of small and medium enterprises.

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APPENDIXES

Appendix 1: Pilot Test

Dear Participant,

We appreciate your willingness to participate in this important questioner, which aims to gain valuable insights into the financial manager's awareness, perceptions, and experiences of Micro, Small, and Medium-sized Enterprises (MSMEs) regarding Shariah-compliant financing for short-term working capital in Palestine.

Your responses will contribute to a better understanding of MSMEs' challenges and obstacles when seeking Shariah-compliant financing and how these financial solutions align with your business values and needs.

Please note that your participation is entirely voluntary, and your responses will remain confidential. Your input is invaluable in shaping the future of Islamic finance for businesses like yours.

This survey consists of a series of questions grouped into categories, covering various aspects of Shariah-compliant short-term financing for working capital. You're honest and thoughtful responses will help shed light on the following key areas: (Awareness and Understanding, Ethical and Cultural Considerations, Operational Performance, Financial Performance, Difficulties and criticisms, comparing Islamic and Conventional Options).

Please respond to each question to the best of your knowledge and experience. Your input will contribute to a comprehensive understanding of the landscape of Shariah-compliant financing for MSMEs in Palestine.

Thank you for your valuable participation.

Sincerely,

Sabah Aldean Zaim University

Zuhair Jamel Abdalrazzaq

<p>Demographic Information:</p>	<p>a) Please select the primary geographic location of your enterprise</p> <ul style="list-style-type: none"> • Nablus * Salfit *Al-Bireh and Ramallah <p>b) What is the size of your enterprise in terms of the number of employees?</p> <ul style="list-style-type: none"> • Micro (1-4 employees) * Small (5-9 employees) • Medium (10-19 employees) *medium (20-49 employees) <p>c) Which industry or sector best describes your enterprise?</p> <ul style="list-style-type: none"> • Manufacturing * services (e.g., retail, hospitality, consulting) • Trading * Agriculture" <p>Has your enterprise previously obtained financing from Islamic banks??</p> <ul style="list-style-type: none"> • Yes, *No, <p>Note: This question is intended to focus the study on the category that has financial experience with Islamic banks and exclude the category that has not engaged in Islamic financing yet.</p>
	<p>To what extent do you agree with the following statements:</p>
<p>A-Awareness and Understanding</p>	<p>Question 1: "I am familiar with the concept of Islamic short-term working capital financing and its potential for my business?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question 2: I am aware of the financing options for short term working capital through Islamic instruments provided by Islamic banks?</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question 3: Islamic banks are effective in educating their customers about Islamic short-term working capital financing and the associated tools?</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question 4: "I use Islamic financing options to manage my short-term working capital requirements?"</p>

	<ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question7: Islamic banks fail to effectively educate their customers about short term Islamic working capital financing and the associated tools?</p> <p>Fully agree * Agree * Neutral *Disagree *Fully disagree</p>
<p>B) Religious and Ethical Beliefs</p>	<p>Question 5: "My religious beliefs influence my choice of financing options?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question 6: "I have confidence in the current Islamic short-term working capital financing tools in terms of aligning with my Sharia principles"?</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral * Disagree * Fully disagree <p>Question 7: "I always seek Islamic working short-term capital financial instruments regardless of their financial performance?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral * Disagree * Fully disagree <p>Question 13: "My religious beliefs do not influence my choice of financing options?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral * Disagree * Fully disagree <p>Question 8: "I always seek short term Islamic working capital financial instruments regardless of their operational performance?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral * Disagree * Fully disagree
<p>C) Operational Performance:</p>	<p>A-Availability of Shariah-Compliant Financing Products</p> <p>Question 9: "I readily find Shariah-compliant financing products available to address my specific short-term working capital needs?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree <p>B-Feasibility for Working Capital</p> <p>Question 10: "I find Shariah-compliant financing options practical for meeting my business's short-term working capital requirements?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree

	<p>C-Adaptability and Flexibility</p> <p>Question 11: "I perceive the adaptability and flexibility of Shariah-compliant financing options as suitable for meeting my short-term working capital needs?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree <p>D- Effectiveness in Streamlining Operations</p> <p>Question 12: "Islamic financing tools are effective in streamlining my day-to-day business operations?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral * Disagree * Fully disagree <p>E- Contribution to Operational Resilience</p> <p>Question 13: I believe Islamic financing tools contribute to the overall operational resilience of your business in managing short term working capital fluctuations?</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral * Disagree * Fully disagree
<p>D) Financial Performance:</p>	<p>A-Profitability:</p> <p>Question 14: "The adoption of only Shariah-compliant short-term working capital financing positively impacts the profitability of my business?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree <p>B-Cost Efficiency:</p> <p>Question 15: "Shariah-compliant short-term working capital financing had negative effects on the financing cost?"</p> <ul style="list-style-type: none"> • * agree * Agree * Neutral * Disagree * Fully disagree <p>C-Financial sustainability:</p> <p>Question 16: I perceive that current Shariah-compliant short-term working capital financing options negatively influenced financial health and sustainability?</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree <p>D-Stability in Economic Downturns:</p> <p>Question 17: "Shariah-compliant short-term working capital financing does not enhance the stability of MSMEs during economic downturns or challenging market conditions?"</p>

	<ul style="list-style-type: none"> • * Fully agree * Agree * Neutral * Disagree * Fully disagree <p>F-liquidity risk</p> <p>Question 18: "Relying solely on Islamic financial instruments exposes my business to liquidity risk?"</p> <ul style="list-style-type: none"> • * Fully agree * Agree * Neutral *Disagree *Fully disagree <p>Question 19: "Shariah-compliant short-term working capital financing had positive effects on the financing cost?"</p> <ul style="list-style-type: none"> • Fully agree * Agree * Neutral *Disagree *Fully disagree
<p>E) Difficulties and Obstacles</p>	<p>A- Complexity</p> <p>Question 20: I perceive the documentation and contract structures associated with Shariah-compliant short-term financing to be complex?</p> <ul style="list-style-type: none"> • *Fully agree * Agree * Neutral *Disagree *Fully disagree <p>B- Time and Accessibility</p> <p>Question 21:"The complexity of Shariah-compliant financing documentation has impacted processing time and accessibility"?"</p> <ul style="list-style-type: none"> • *Fully agree * Agree * Neutral *Disagree *Fully disagree <p>C-Collateral as a Barrier to Entry</p> <p>Question 22: I consider the collateral requirements for Shariah-compliant short-term financing to be a barrier entry?</p> <p>*Fully agree * Agree * Neutral *Disagree *Fully disagree</p> <p>Question 23: I perceive collateral arrangements in Shariah-compliant short-term financing impact my preferences for Shariah-compliant financing options?</p> <p>*Fully agree * Agree * Neutral *Disagree *Fully disagree</p> <p>Question 24: I perceive the documentation and contract structures associated with Shariah-compliant financing to be straightforward?</p> <p>*Fully agree * Agree * Neutral *Disagree *Fully disagree</p>
<p>A comparison of Islamic financial</p>	<p>A-competitive compared</p>

<p>tools with conventional tools</p>	<p>Question 25: I perceive Islamic financial instruments to be competitive compared to conventional financing options for working capital?</p> <p>*Fully agree * Agree * Neutral *Disagree *Fully disagree</p> <p><i>B-Flexibility Comparison</i></p> <p>Question 26: "I perceive conventional financing instruments to be much more flexible compared to Shariah-compliant financing instruments for my short-term working capital needs?"</p> <p>*Fully agree * Agree *Neutral *Disagree *Fully disagree</p> <p><i>C-Availability Comparison</i></p> <p>Question 27: I perceive Conventional financing instruments are more flexible than Shariah-compliant financing instruments for my short-term working capital needs?"</p> <p>*Fully agree *Agree *Neutral *Disagree *Fully disagree</p> <p>D-Cost comparison</p> <p>Question 28: "I perceive conventional financing tools to be highly cost-effective compared to Islamic financing tools for short term working capital?"</p> <p>*Fully agree *Agree *Neutral *Disagree *Fully disagree</p> <p><i>E-Ability to Secure Financing comparison</i></p> <p>Question 29: "I find it easier to secure conventional financing to finance my short-term working capital compared to Islamic financing"?</p> <p>*Fully agree *Agree *Neutral *Disagree *Fully disagree</p> <p><i>F-Feasibility for Working Capital comparison</i></p>
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	<p>Question 30: "I believe conventional financing is more feasible for addressing my business's short-term working capital needs compared to Islamic financing"?</p> <p>*Fully agree *Agree *Neutral *Disagree *Fully disagree</p> <p>G-Complexity of Shariah-Compliant Documentation:</p> <p>Question 31: I perceive the documentation processes for Shariah-compliant financing to be more complex compared to conventional financing"?</p> <p>*Fully agree *Agree *Neutral *Disagree *Fully disagree</p>
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Pilot Test Analyses

Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded ^a	0	.0
	Total	25	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.756	27

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig
Between People	83.920	24	3.497		
Between Items	115.443	26	4.440	5.213	.000
Within People	531.520	624	.852		
Residual	531.520	624	.852		
Total	646.963	650	.995		
Total	730.883	674	1.084		

Grand Mean = 3.63

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	الوعي & q1	25	.636	.001
Pair 2	الوعي & q2	25	.692	.000
Pair 3	الوعي & q3	25	.671	.000
Pair 4	القيم & q4	25	.040	.848
Pair 5	القيم & q5	25	.279	.177
Pair 6	القيم & q6	25	.602	.001
Pair 7	القيم & q7	25	.552	.004
Pair 8	القيم & q8	25	.413	.040
Pair 9	القيم & q9	25	.776	.000
Pair 10	العملي & q10	25	.606	.001
Pair 11	العملي & q11	25	.928	.000
Pair 12	العملي & q12	25	.828	.000
Pair 13	المالي & q13	25	.757	.000
Pair 14	المالي & q14	25	.721	.000
Pair 15	المالي & q15	25	.762	.000
Pair 16	المالي & q16	25	.844	.000
Pair 17	المالي & q17	25	.137	.512
Pair 18	المعوقات & q18	25	.668	.000
Pair 19	المعوقات & q19	25	.871	.000
Pair 20	المعوقات & q20	25	.734	.000
Pair 21	المعوقات & q21	25	.810	.000
Pair 22	المقارنة & q22	25	.547	.005
Pair 23	المقارنة & q23	25	.308	.135
Pair 24	المقارنة & q24	25	.676	.000

Pair 25	المقارنة & q25	25	.561	.004
Pair 26	المقارنة & q26	25	.882	.000
Pair 27	المقارنة & q27	25	.592	.002
Pair 28	الوعي & المجموع	25	.125	.551
Pair 29	القيم & المجموع	25	.747	.000
Pair 30	العملي & المجموع	25	.377	.063
Pair 31	المالي & المجموع	25	.758	.000
Pair 32	المعوقات & المجموع	25	.529	.007
Pair 33	المقارنة & المجموع	25	.757	.000

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APPENDIX 2: QUESTIONER

Dear Participant,

We appreciate your willingness to participate in this important survey, which aims to gain valuable insights into the perceptions and experiences of business owners/financial managers in micro, small, and medium enterprises regarding the financing tools provided by Islamic banks and their suitability for funding operational expenses and working capital.

This survey serves as a data collection tool for a research study in fulfillment of a PhD thesis by researcher Zohair Jamil Abdelrazzaq, titled "Islamic Banking Financing Tools for Working Capital: An Applied Study on Micro, Small, and Medium Enterprises."

The questions in this survey cover various aspects of these tools, including religious considerations and their impact on financing decisions, the efficiency of these tools in providing necessary liquidity for small and medium enterprises, the impact of reliance on these tools on the financial performance of enterprises, challenges and obstacles associated with using these tools, and comparisons between Islamic and conventional financing options.

Please answer each question to the best of your knowledge and experience. Your input will contribute to a comprehensive understanding of Sharia-compliant financing for micro and small enterprises. Kindly note that your participation is entirely voluntary, and your responses will remain confidential.

Thank you for your valuable participation.

Sincerely,

Zohair Jamil Abdelrazzaq

PhD Candidate - Islamic Economics and Finance Program - Sabahattin Zaim University
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Note: This questioner is intended for business entities, not individuals in their personal capacity. Please respond only if you are a business owner or responsible for financial operations in a micro, small, or medium enterprise operating in the West Bank.

Please select the correct answer

1. What is the highest level of education you have completed?

- High school or less * Diploma * Bachelor's degree *Master's degree *Doctorate degree

2. **Years of Experience in Current Position**

- Less than 5 years
- 5-10 years
- More than 10 years

3. current position

- Finance Manager
- Business Owner

4. How many employees does your company have?

- Less than 5 employees
- 5-9 employees
- 10-19 employees
- 20-49 employees
- 50 employees or more

5. **Nature of Business**

- Manufacturing
- Trade
- Services
- Technology
- Finance
- Agriculture

6. How many years has your company been in operation?

- Jenin
- Tubas and Northern Valleys
- Qalqilya
- Tulkarm
- Nablus
- Salfit
- Al-Bireh and Ramallah
- Jericho
- Jerusalem
- Bethlehem

- Hebron
- Other Location

7. Does Your Enterprise Have a Bank Account?

- Yes
- No

a. If Yes, What Type of Bank Do You Have an Account With?

- Islamic
- Conventional
- We have an account in both an Islamic bank and a conventional bank

8. Does Your Enterprise Consider Religious Considerations When Seeking Bank Financing?

- We adhere to or strive to adhere to using Sharia-compliant financing methods only
- We do not adhere to Sharia-compliant financing methods

9. Has Your Enterprise Ever Obtained or Sought Financing from Islamic Banks?

- Yes
- No

Not: Those who answer that they have not obtained financing from Islamic banks will end the survey here

This section aims to investigate the factors influencing the adoption of Islamic financial instruments among MSMEs. Please indicate your level of agreement with the following statements, using a scale from 1 to 5 where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Statement	(Strongly Disagree)	(Disagree)	(Neutral)	(Agree)	(Strongly Agree)
1. My religious beliefs significantly influence my decision to use Islamic financial tools.					
2. I believe that the financing methods provided by Islamic banks comply with the principles of Islamic Sharia.					
3. I believe that clients' perception of the legitimacy of the financial tools provided by Islamic banks affects their decision to adopt these tools.					
4. I believe that the level of awareness about Islamic banking tools significantly impacts the decision to adopt or not adopt these tools.					
5. I am familiar with the concept of Islamic financial tools.					
6. I clearly understand the fundamental differences between Islamic and conventional financial tools.					
7. I believe that the quality of service provided by Islamic banks seriously affects clients' decisions to commit to Islamic transactions.					

8. I believe that the quality of service provided by Islamic banks meets my expectations.					
9. I believe that delays in processing transactions can negatively affect my decision to commit to Islamic banks.					
10. I believe that Islamic banks respond quickly to customer needs					
11. I choose Islamic banks because they offer flexible services that meet my needs.					
12. I believe that Islamic banks do not process financial transactions as quickly and efficiently as conventional banks.					
13. I believe that Islamic banks offer a variety of financial tools that meet different financing needs.					
14. Your company's commitment to using Islamic financial tools may be influenced by the availability of Islamic financing options for operational expenses					
15. I believe that the variety of financial products offered by Islamic banks affects my decision to commit to them.					
16. I believe that Islamic banks have a good level of					

communication with customers compared to conventional banks.					
17. I believe that Islamic bank employees show a good understanding of my financial needs and provide suitable solutions.					
18. I believe that personal communication between Islamic banks and their customers can influence your company's decision to commit to dealing with Islamic banks.					
19. I believe that understanding customer needs by Islamic bank employees affects my decision to commit to them.					
20. I believe that Islamic banks are keen to strengthen the personal relationship between bank employees and customers.					
21. I believe that personal attention from Islamic bank employees enhances customer satisfaction and affects my decision to use their services.					
22. I believe that the professionalism of Islamic bank employees in dealing with me affects my decision to commit to them.					
23. I believe that the complexity of obtaining financing through Islamic financial tools negatively affects my commitment to Islamic transactions.					

<p>24. I believe that the Islamic financial tools provided by Islamic banks are more complex compared to conventional tools.</p>					
<p>25. I believe that the strictness of guarantee requirements in Islamic banks may lead me to prefer conventional banks.</p>					
<p>26. I believe that the guarantee requirements in Islamic banks are stricter compared to conventional banks.</p>					
<p>27. I believe that the guarantee requirements set by Islamic banks create a barrier to relying on them for short-term financing.</p>					
<p>28. I believe that the cost of financing directly influences my decision to rely on Islamic financial tools.</p>					
<p>29. I believe that the cost of financing for Islamic financial tools is higher compared to conventional financial tools.</p>					
<p>30. I believe that the lack of Islamic financial tools that provide the necessary liquidity for operational expenses can affect the decision to commit to Islamic financial tools.</p>					
<p>31. I believe that the financial tools provided by Islamic banks offer sufficient liquidity for my business needs.</p>					

32. I believe that Islamic banks provide financing that suits the needs of operational expenses for projects.					
33. I believe that the decision between Islamic and conventional financial tools is significantly influenced by their ability to provide liquidity with the necessary speed and appropriateness.					
34. I believe that the liquidity available in Islamic financial tools affects my ability to manage financial risks.					
35. I believe that Islamic banks in Palestine provide appropriate financial products to meet the needs for quick liquidity and working capital.					
36. I believe that the availability of suitable Islamic financial products to provide quick liquidity influences my decision to commit to Islamic financing.					
37. I believe that the spread of Islamic banks and their branches is sufficient to meet customers' needs for service.					
38. I believe that easy access to Islamic financial services in terms of location and the spread of Islamic banks affects my decision to commit to dealing with them.					

<p>39. I believe that the commitment to Islamic financial tools is higher when they are readily available.</p>					
<p>40. I believe that easy access to Islamic financial tools affects the level of liquidity I can obtain.</p>					
<p>41. The flexibility of financial products affects my decision to rely on them.</p>					
<p>42. I believe that Islamic banks offer flexible products that are adaptable to short-term financing needs and working capital requirements.</p>					
<p>43. I believe that the difference in flexibility between Islamic and conventional financial tools affects my level of commitment to them.</p>					

APPENDIX 3: INTERVIEWS

Dear Sir/Madam,

I am a PhD student at Istanbul Saba Hattin Zaim University, Institute of Higher Education. I am conducting a study titled "Evaluating Islamic Banking Financing Methods for Working Capital Needs: A Study of Palestinian Micro, Small, and Medium Enterprises (MSMEs)." Documenting the role of financial institutions in this process is central to my study, and I am keen to hear about individual experiences regarding the factors that affect the utilization of Islamic banking instruments in financing working capital needs in MSMEs.

To facilitate this, I have prepared a few questions that I would like participants to consider:

How effective are Islamic banking instruments in meeting the working capital needs of MSMEs?

What challenges do MSMEs face when accessing Islamic banking financing methods?

How can Islamic banking institutions improve their support for MSMEs' working capital needs?

I am seeking individuals willing to share their personal business-related experiences by participating in an interview. Your insights would be invaluable to my research, and I would greatly appreciate your involvement in discussing this pivotal issue.

The interview is expected to take between 15 and 20 minutes. Participation is entirely voluntary, and you have the right to refuse to answer any question or to withdraw from the study at any time. All data collected will be handled with complete confidentiality, and anonymity will be maintained, with the identities of participants known only to myself.

Thank you very much for considering this request. Your cooperation and insights would be highly appreciated.

Best regards,

Zuhair jameel rezq abd alrazzaq

PhD Student

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General Background

- Can you briefly describe your role and responsibilities within the bank?
- How long have you been working in the Islamic banking sector?

Religious Beliefs:

- How do observe the religious beliefs of MSME clients influence their decision to adopt Islamic financial instruments?
- Can you provide examples of how religious beliefs have impacted financing decisions?

Awareness:

- How do observe aware are MSME clients of the Islamic financial instruments your bank offers?
- What measures does your bank take to educate and increase awareness among MSMEs about these instruments?
- How do you perceive awareness impact the adoption rates of Islamic financing among MSMEs?

Satisfaction Factors

- How does the quality of service impact MSME satisfaction and their continued use of Islamic financial instruments?
- How do you perceive Sharia compliance crucial to your MSME clients?
- How do you perceive transaction processing time impact on client satisfaction and their decision to adopt Islamic finance?
- What do you think about the diversification of the Islamic financial products and services offered by your bank?
- How you perceive the product diversity influence MSME satisfaction and adoption decisions?

- How do you perceive about Islamic banks bank communication with clients about their financial options?
- How you perceive the communication quality affect client satisfaction and their willingness to use Islamic financial instruments?
- How do you observe about personalized are the financial services Islamic banks offers to MSMEs?
- How do you perceive the personalization impact client satisfaction and adoption of Islamic financial products?

Constraint Factors

- From your observation how do MSME clients perceive the complexity of Islamic financial instruments compared to conventional ones?
- How do you perceive the complexity perception influence their attitudes towards adopting Islamic finance?
- From your experience what are the typical collateral requirements for MSMEs seeking Islamic finance from your bank?
- How do you think about these requirements impact MSME attitudes and their decision to adopt Islamic financial instruments?

Financial Performance Factors

- From your observation how do MSME clients perceive the costs associated with Islamic financing?
- Do you think this perception directly impact their decision to adopt these financial instruments?
- From your observation how do MSME clients view the liquidity provided by Islamic financial products?
- Do you think this perception influence their attitudes or risk perceptions regarding Islamic financing?
- From your experience what are the common risk perceptions MSME clients have about Islamic financing?

- What do you think about risk perceptions effect on the likelihood of adopting Islamic financial instruments?

Applicability Factors

- What do you think about readily available are Islamic financial products to MSMEs?
- How does this availability directly impact their decision to adopt these products?
- How accessible are Islamic financial services for MSMEs in terms of location, ease of application, etc.?
- How does accessibility influence the likelihood of MSMEs adopting Islamic finance?
- How flexible are the Islamic financial products offered by your bank in terms of terms and conditions, repayment schedules, etc.?
- How does this flexibility influence MSME attitudes and preferences towards adopting Islamic finance?

Curriculum Vitae

ACADEMIC QUALIFICATIONS

- **PhD in Islamic Economics and Finance** (in progress), Sabahaddin Zaim University, Turkey
Thesis Title: *"Islamic Methods of Short-Term Working Capital Financing: Application on Palestinian Companies."*
- **Master's in Business Administration (MBA)**, Birzeit University, 2013
- **Bachelor's in Finance Sciences**, An-Najah National University, 2002
- **Arab Certified Public Accountant (ACPA)**, International Arab Society of Certified Accountants (IASCA), 2009

PROFESSIONAL EXPERIENCE

- **Financial Manager**
United Trading Company, Batoun Aqraba (16 years)
- **Employee**
Chamber of Commerce and Industry of Salfet (1 year)

RESEARCH ACTIVITIES AND PUBLICATIONS

- **Research Paper:** *Title: "Crypto-currency from an Islamic Perspective (Critical Analysis of Literature)", Pages: 17-25, DOI: 10.5281/zenodo.10464365*
Paper ID: IJSRED-V7I1P4
- **Conference Participation:** *Conference: 3rd FEMFEST International Conference on Economics, Management, and Business (FICCOMSS), Date: January 8-10, 2024*