

FACTORS INFLUENCING CONSUMER BEHAVIOR
TOWARDS SELECTION OF ISLAMIC MICRO FINANCE
IN SRI LANKA

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ABSTRACT

The purpose of this research is to determinacies of factors in Islamic micro finance in Sri Lanka. A theoretical Model is provided that conceptualizes and links different factors influencing the Islamic micro finance. A total of 75 respondents in valaichenai city in eastern province was sampled for research. Suitable statistical methods will be used to analyze the data, such as descriptive statistical table, correlation and regression analysis with the assistance of software. Correlation between the dependent and the independent variable is a positive relationship.

The results of the model tested clearly that the use of Islamic micro finance is influenced most strongly by business income, loan information & loan expectation. The results also propose that demographic factors impact significantly client behavior, specifically, occupation, education, improves the live hood and age. The result showed that a significant of clients have improved their religious observations such as prayers and fasting. The results of the econometric models showed that household income, productivity of crops and livestock, expenditure and employment increased significantly due to the influence of change behavior and availability of microfinance. Finally, this research suggests that an understanding the Islamic micro finance currently facing lot of problems in Sri Lanka. The Islamic micro investment programme appears to spur more ethical and economically desirable behavior leading to poverty alleviation.

Keyword: Micro entrepreneurs, household income, loan information, client behavior

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BACKGROUND OF STUDY

Programmers that provide credit and savings services have been promoted in recent years by governments, international development organizations as well as local non-governmental organizations (NGOs) and grassroots bodies as a key strategy for alleviating poverty in low-income countries (and increasingly also within poor communities in high income countries) and helping to achieve the Millennium Development Goals (MDGs) indeed 2005 was designated as the 'Year of Microcredit' by the United Nations. At the same time there has been a proliferation of institutions providing credit and loans services to poor or disadvantaged sectors of the population. This has been accompanied by a burgeoning literature evaluating the impact of such programmers and offering advice to the service Providers on how credit and savings schemes should be structured and programmers implemented.

However, very few of these initiatives have adhered to Islamic financing principles, even when their work is undertaken in largely Muslim countries. Unsurprisingly, therefore, there is a paucity of literature documenting the success or otherwise of Islamic microfinance programmes. This, in turn, has meant that organizations wishing to create microfinance initiatives that conform to Islamic financing principles are faced with a distinct lack of guidance on how to establish and implement microfinance programmes.

A great opportunity has been missed. Nevertheless, anecdotal evidence suggests that the demand for microfinance services based on Islamic principles is tremendous there are, after all, around 1.3 billion Muslims worldwide. In the absence of successful microfinance programmes adhering to Islamic financing principles many Islamic donors have tended to shy away from such initiatives and concentrated instead on relief and rehabilitation programmes, thereby limiting the resources Available to those organizations wishing to implement Islamic microfinance programmes. At the same time, many Muslims refrain from using financial services that do not adhere to Islamic financing principles for fear of breaching their religious beliefs certainly there is anecdotal evidence to suggest that the proportion of Muslims using financial services is less this on their non-Muslim counterparts (El Hawary and Grais, 2005).

It would be reasonable to suppose, therefore, that the growth and development of many Muslims owned small businesses is constrained as a result of the unavailability of Islamic financial

services. The purpose of this document is to show how microfinance programmes based on Islamic financing principles can be established. It is hoped that this may encourage the provision of microfinance services that conform to Islamic financing principles and eventually, of course, the use of these services by micro entrepreneurs. As well as providing a theoretical framework

Baron (2012) Entrepreneurship is a driving force of economic growth. It is a mechanism through which human creativity, skills and energy can be utilized into tangible outcomes for the enrichment of human welfare. Bonnet (2012) there is an emergence of Entrepreneurial economy where it is considered as an input to modern, highly developed economies by interlinking itself with modern institutions and policy aims such as education, finance, and regulations. Mahmood (2010) Small and micro enterprises are significantly contributing in economic development by creating employment in rural and urban population, providing flexibility and innovation through entrepreneurship.

Qureshi (2012) SMEs make a considerable assistance in the direction of GDP, income generation, fostering entrepreneurship heritage, paid work possibilities, earning for a lifetime, abilities development of human assets, hunger and poverty alleviation, and advancing the benchmark of dwelling and value of life Further, Qureshi (2012) SMEs employees' lack of managerial skills, lack of marketing, scarcity in capital goods, lack of data on the sector and resistance to change are some more challenges that drag them down. Obaidullah (2008) the provision of appropriate Islamic Micro finance solves the problem and gains the trust of the community, that is deficient in credit, by not only providing them with the Shariah Compliant products but also supplying them with the range of services like savings, money transfer facilities and insurance

This paper seeks to highlight the need for creativity and innovation in poverty alleviation efforts using Shariah compliant mechanisms. Contemporary mechanisms in use by mainstream Islamic banks and financial institutions may indeed be grossly inappropriate in the context of local economies and for financing micro livelihood projects. Arguably, poverty alleviation efforts cannot be viewed similar to commercial transactions where an Islamic MFI seeks to provide a

mix of services that include hand holding and other forms of support to its client which is often a loose group/ association of poor people.

Methodology

In this study, it was observed that the beneficiaries are mainly rural poor having very limited access to education and institutional credit and they also have low command over productive resources due to their inability to meet the collateral requirement, the rural poor cannot start up productive activities even though they may have the adequate skills for pursuing income generating activities.

Because of their low level of income, they cannot even fill their consumption needs properly and ultimately they have to lead a lower quality of life. In such circumstances, microcredit programme may support the poor in reducing their poverty by creating both direct and indirect benefits. Under microcredit programmes, borrowers can take investment without providing collateral for the microcredit providers. The amount of investment they receive from the providers' increases their financial ability to invest more in income generating activities. Microcredit programmes also provide opportunity to generate employment for the poor in the locality. By participating in income generating activities under microcredit, rural poor may have more earnings from activities that directly add to their income.

Therefore, the program me provides training and non-formal education to the borrowers, hoping that training and education will enhance their level of skills in performing income-generating activities. Therefore, the borrower's age, education and experiences need to be considered carefully in choosing participants because the decision-making ability may largely be influenced by such factors. Factors like household's asset will increase the ability of the borrowers to invest in income generating activities. The household has they largely depend on family labor for pursuing income-generating activities.

The factors which are responsible for the impact of microcredit on the rural poor have been reviewed. Girish and Mehta (2003) and as annoy (2004) observed that the age of the family head and family size were an important factor for economic decision such as production and

consumption. Latif (2002) also observed that family size had an influence on consumption and calorie intake of rural Bangladeshi households. Shrestha and Shivakoti (2003) mentioned that family labour was one of the important human capitals. Therefore, rural farmers are largely depended

On their family labor for pursuing economic activities. Khandker (2000) reported that micro credit programmes had increased production, consumption, and employment opportunity and reduced informal borrowing among the borrowers and it had also increased the ability of the poor borrowers to save regularly for building financial and physical capital. As Annoy (2004) indicated that educated borrowers had a higher level of knowledge and skills as compared to less educated borrowers in case of performing their economic activities.

Latif (2002) observed that the establishment of rural infrastructure had reduced production cost, transportation cost and it had created easy access to markets for inputs and outputs. Shrestha and Shivakoti (2003) mentioned that physical infrastructure facilities helped in distributing inputs and output, adding value and enhancing production. It is hypothesized that all of these variables would innocence households' livelihood, therefore, age, education, family size, financial capital, savings and asset base have been considered in this study as important factors of livelihood.

Data were collected from clients of Amana bank, Ceylinco takaful, Amana takaful and Muslim aid the primary data were directly collected from the Field, during March and April 2016, through questioners from 75clients.

DATA ANALYSIS AND FINDING

Data analysis was done using questioner with customers of Islamic micro finance companies. The micro finance company provides the loan every year. , micro finance provide different type of loan for an example, housing loan, land perchance loan & machinery. It is a fixed time period they have agreed with their clients. It can be varied according to the situation. It can be called as customer prospecting process, because already company had more than month to prepare the client order.Descriptive analysis for Independent variable the following table shows the

calculated mean values and standard deviations of respondent of improving live hood. This shows the average values given by respondents and how many subjects in the group score within a certain range of variation from the mean score for the entire group.

Table 1 Descriptive Analysis

	-N	-Minimum	-Maximum	-Mean	-Std. Deviation	-Skewness	-Kurtosis
	-Statistic	-Statistic	-Statistic	-Statistic	-Statistic	-Statistic	-Statistic
	-Std. Error	-Std. Error	-Std. Error	-Std. Error	-Std. Error	-Std. Error	-Std. Error
LH-74	1.00	2.43	1.8127	.39632	-.839	.279	-.156
PI-74	1.60	3.00	2.2622	.32759	-.269	.279	-.272
BI-74	1.25	3.00	2.3682	.34179	-1.082	.279	1.835
BIN-74	1.00	3.67	2.1261	.71023	.352	.279	-.416
LI-74	1.00	2.83	2.2477	.38050	-.724	.279	.098
LX-74	1.00	2.00	1.6486	.48065	-.636	.279	-1.641
Valid N (listwise)-74	-----						

Source: SPSS output

The researcher has utilized the following measures for interpretations; If mean value: $0.1 \leq X < 0.5$ Not at all agree, $1.0 \leq X < 2.5$ moderately agree, $2.5 \leq X < 3$ Almost agree. According to the table, average values of personal information, Business information, business income information, information, and loan expectation have been falling under the range of $1.0 \leq X < 3$. This denotes that respondents almost agree with those dimensions. The mean with respect to the personal information, Business information, business income information, loan information, and loan expectation were 1.8127, 2.2622, 2.3682, 2.2477, and 1.6486. These values were falling into the category of almost agree.

Given the consideration to the above information, it is clear that all the factors have scored higher value for customer acceptance of micro finance improve the live hood. Therefore, it has proved that respondents are agreeing with the current situation of the Security factors, Knowledge factors, Information online factors and satisfaction factors.

In addition, the standard deviation was measured that how far one value range away from the mean. Value of standard deviation for personal information, Business information, business

income information, loan information, and loan expectation were, .32759, .34179 .71023, .38050, .48065 respectively. It means to suggest that there were no higher disperse from mean value regarding above variables because all value were less than one. In terms of the acceptance of improve of live hood, the mean value of Acceptance was 1.8127 and value can be deviated from 0.39632 Since, mean value was between the range of $1.5 \leq X < 3$, it discovered that customers are almost agree with Acceptance factors. And also standard deviation is 0.52735.

Table 2 Correlation Analysis

		LH	PI	BI	BIN	LI	LX
LH	Pearson Correlation	1	-.051	.144	.430**	.487**	.605**
PI	Pearson Correlation	-.051	1	-.146	-.325**	-.374**	.036
BI	Pearson Correlation	.144	-.146	1	.069	.395**	.194
BIN	Pearson Correlation	.430**	-.325**	.069	1	.224	.372**
LI	Pearson Correlation	.487**	-.374**	.395**	.224	1	.433**
LX	Pearson Correlation	.605**	.036	.194	.372**	.433**	1

Source: SPSS output

The correlation matrix in Table 2 shows that they improve live hood (dependent variable) is correlated at independent variables (personal information, business information, loan

information, and loan expectation information From the regression output, it can be said that the independent variables have a relatively higher relationship (negatively or positively) with dependent variable of the selected listed companies. Size is found highly positive relationship between dependent variable independent variables. The results also show that size and growth are positively correlated with personal information, business information, loan information, and loan expectation information. This implies that larger listed companies and growing companies tend to have higher profitability, whereas, profitable listed companies tend to have less tangible assets. As concluding analysis, the selected explanatory variables are found to have a strong and significant relationship with the dependent variable. Therefore, the selected independent variables can explain the dependent variable with a considerable degree. This is almost a continuation of correlation. Whereas correlation analysis indicates the strength of the relationship and regression analysis can be used to predict the behavior of one variable depending on another variable. Here, simple regression was done for the dependent against independent variables; those were measured as interval scale.

Table :3 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.046	.477		-.096	.924
	PI	.176	.125	.146	1.405	.165
	BI	-.071	.110	-.061	-.649	.519
	BIN	.150	.056	.270	2.670	.009
	LI	.364	.118	.350	3.094	.003
	LX	.297	.089	.360	3.327	.001
	R	.699 ^a				
	R square					

Adjusted R square					
F	12.970				0.000
			Durbin-Watson = 1.747		

a. Dependent Variable: LH

Source: SPSS output

The above model summarizing parts of the output is most useful when performed multiple regressions. Capital R is the multiple correlation coefficients that tell us how strongly the multiple independent variables are related to the dependent variable. In the simple bivariate case, $R = |r|$ (multiple correlation equals the absolute value of the bivariate correlation.) R square is useful as it gives us the coefficient of determination

The coefficients part of the output gives the values that we need in order to write the regression equation. The regression equation will take the form. The above table shows the summary of the regression model between independent variables (business income) and a dependent variable (improve live hood).

The above table shows the summary of the regression model between independent variables (loan expectation) and dependent variable (improvement of live hood). F-value 12.97 indicates the correlation of the two variables that is and R^2 explains the variance, which is 0.350. These results, meant that 51 % of the variance is affecting to improve the live hood.

The Islamic financial processes need to be simplified according to the client segmentation and the products should be diversified at lower cost with minimum risk for the prosperity of the product market. For example, the incorporation of the model of Qard Ul Hassan in the Islamic micro finance system will boost the confidence of the general public in the registered Islamic financial institutions, due to the wealth being distributed properly among established networks and individuals. Islamic micro finance institutions should not focus on individuals alone, but also extend their services towards families as well as local communities.

Islamic banks should directly deal with the entrepreneurs and concentrate on eradicating loopholes created due to misuse of Islamic products and services by black marketers. Islamic micro financial institutions need to get acquainted with the present community's socioeconomic background and challenges in order to get a better picture of the demands and requirements of the rural populace.

This insight would in turn help them to improvise their formulated case specific training programs and models on the targeted clientele which could then be introduced and taught by holding workshops and awareness training programs on a regular basis to create awareness of Islamic regulations. Well reputable Shariah boards are required to include members that are experts in the field of Islamic financial institutions and have specialized in Fiqh for authenticity.

This strengthens the economic roles of borrowers and increases household income. In the case of women borrowers in particular, proponents of micro finance programmes argue that by increasing women's access to micro finance and thereby strengthening women's ability to control their assets and income, projects contribute to improving women's self-esteem and their status, both within the household and in the wider community, as independent producers and providers of a valuable cash resource to the household economy.

Microcredit is now a well-established poverty alleviating programme which is being implemented across the world. All these institutions working in Bangladesh provide interest based credit, which is straightway a violation of shari'ah. These institutions also do not care about the ethical aspects of the rural poor, although it is obligatory, not only in the business sector but also in all aspects of life. Business and ethics should be interrelated. However, the micro investment programme is to uplift the overall socioeconomic plight of the rural poor, which, in this case, cares about developing ethics and moral development of the clients as it can play a crucial role in alleviating poverty.

Although, level of participation in religious activities of the clients has greatly been improved after joining the RDS programme, there is still room to improve these activities, especially

knowledge about the interest, its consequence, and how to get rid of it. Therefore, a weekly meeting or frequent lectures may be organized regarding this issue. Results showed that most of the clients utilized they borrowed money, but the reality is that not all clients invested their borrowed money to income generating activities. Instead, some of them utilized their investment in house repairing, children's marriage ceremony and furniture purchase, etc. Therefore, proper monitoring and supervision should be done to develop their morals and ethics so that they use their money in income Generating activities.

It was observed that some field supervisors do not properly practice the Bai-muajjal mode; which is a clear violation of shari'ah so, necessary measures have to be taken to develop their moral and ethics so that they Do not violate shari'a hMudaraba mode of investment may be practiced with some selective good clients, even if in some cases this mode does not bring any profit for the scheme so that the clients and person concerned would and the difference between conventional (interest based) and Islamic micro finance. Incorporating this mode in place of Bai-muajjal mode would reduce shari'ah violation.

Social welfare, unemployment, public debt and globalization have been re-examined from the perspective of Islamic norms and values. Islamic banks have grown recently in the Muslim world, but still constitute a very small share of the global economy compared to the Western debt banking paradigm. It remains to be seen if they will find niches, although hybrid approaches, such as microfinance, which apply classical Islamic values using at the same time conventional lending practices, as lauded by some proponents of modern human development theory. The segment of the population that has been excluded from financial services so far, has to be seen as an opportunity, a profitable market niche.

As a result of a major interest towards these people, positive social externalities will show. The "financially excluded" group is heterogeneous and includes not only poor people in developing countries, but also migrants who need money transfer to manage their remittances in their home countries, young people with the enthusiasm of starting some new income generating activity, but lack capital, Exclusion can come about as a result of problems with access, prices, marketing, financial literacy or self-exclusion in response to negative experiences or perceptions.

Conclusion and Recommendation

Islamic micro finance should practice inclusive micro finance. The beauty of the MA model is that it addresses the needs of all stakeholders - the farmers as well as the millers - and therefore should encourage an interest in agriculture contributing to food security. A mutuality based Cooperative model of organizing the farmers is seen as the preferred alternative to improve their Bargaining power on the one hand and to ensure proper end use of funds on the other. Of no less Importance is the need to do away with the dependence of the farmers. Dependence, whether on Government grants or on zakah is incompatible with true empowerment. A holistic approach to Livelihood development that includes the use of market mechanism as the tool of intervention as Demonstrated in the present study should lead to desired outcomes.

The integration of microfinance institutions with the professional training and endowment structuring institutions in Pakistan can surmount trials such as providing Islamic micro finance services to the underprivileged. Ethical and moral motivational programs have to be undertaken by both field supervisors and the clients, thereby, ultimately fortifying the monitoring and supervisory modules.

This study suggested that can ease administrative burdens for NGO providers, enabling lower-cost operations and thus broader reach. Beyond this, other interventions to meet the needs of the poor while addressing Longstanding cost and value chain inefficiencies in Islamic (micro) finance include: Creating legal frameworks and technological platforms to digitally and transparently Channel (e.g. Via a smartphone app) corporate and individual zakat, sadaqat, and waqf into liquidity pools for qard hassan, providing a dependable source of Shari'a compliant funds .Religious requirements for a direct link between zakat and its recipient can be Accommodated through client pre-screening and selection processes (e.g. Of abandoned or Widowed women and/or their children), subsidization of administrative costs through other Means, etc.

Encouraging mobile money “wallets” for vendors used in murabaha, baimuajjal and baiSalam procurement. This would reduce safety risks associated with transporting cash, Reduce

institutional costs and procedures related to cash handling, and encourage the Growth of a digital ecosystem among vendors in local markets. Developing/expanding platforms with up-to-date mobile-based market information for Banks and clients sourcing assets for murabaha, baimuajjal and baisalam. This would reduce procurement costs for both banks and clients, and would avoid skewing local Market prices. Farmers have used similar technology to sell crops at fair prices and reduce the role of exploitative middlemen.

Developing methods for digital paper trails related to accounting, procurement, etc. To reduce the information asymmetries and the propensity for corruption that make musharaka and mudaraba underused profit-loss sharing contracts. Encouraging Islamic micro finance providers to allow mobile money repayment as an Option per the needs of each program and client demographic. This could reduce Expensive client travel to offices, accommodate female clients preferring not to travel outside the home, and reduce costs associated with weekly field officer visits.

Cash transfers are increasingly popular for development organizations, but cash transfers without mutual contractual agreement and the underlying assets are not Shari'a more compliant. One option is a card preloaded with cash for use by specific vendors for a limited set of products system being pioneered in UN refugee camps in Turkey and Bangladesh. Simple adjustments can render strategies Shari'a compliant, even if the strategies are not inherently "Islamic." Another example of this would be support for the Shari'a compliant Bank insured ROSCA model.

This insight would in turn help them to improvise their formulated case specific training programs and models on the targeted clientele which could then be introduced and taught by holding workshops and awareness training programs on a regular basis to create awareness of Islamic regulations. Well reputable Shariah boards are required to include members that are experts in the field of Islamic financial institutions and have specialization. Islamic micro finance remains a scattered industry, with a mix of small-scale experiments and more established institutions. National or regional databases or other systematic methods of collecting and processing information related to best practices and lessons learned are minimal. The Islamic Development Bank is arguably the best-positioned institution to currently act as a research and

development hub for Islamic micro finance, including new products and services, optimal legal environments, and basic computing requirements. The scope for the collaboration is high and the capacity for innovation in this still-nascent industry, where supply has not met demand, should encourage impatient optimism of industry observers, providers, and clients alike.

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