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# The Development of Islamic Finance Mechanism for the Financing of Small and Medium Enterprises: Study Case in Sudan Islamic Banks

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**Abstract:** The current study deals with the obstacles faced by Banks during the financing of the small and medium enterprises by virtue of equations that restructuring resource control within the Banks. Likewise, it discusses the possibility of providing funding for small enterprises through the combination and the establishment between the contracts to comply with the multiple of these institutions needs. The study shows that the importance of the development of the currently funding mechanisms used during the development of feasibility studies and the development of safeguards and invent new formats cater to the financing needs of these institutions, in line with the restructuring of resources within the Islamic Banks in particular.

**Keywords:** Islamic Finance, Murabaha, Funding, Salam, Ijara, Musharaka Salam, Mugawla, Mudaraba

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## 1. Introduction

The banking system is one of the most important tools used by the state to implement the financial and economic policy. Banks generally depend on their customer's ability to provide adequate safeguards when awarding funding to ensure their rights if there is any faltering when payment is unable to small and medium enterprises to provide these guarantees. It occupies small projects a high priority on the agenda of the economies of developing countries including Islamic countries.

Barakat said "representing the small and medium enterprises more than 90% of the projects the size of the majority of the world economies as they offer a 40% - 80% of the total employment and account for the contribution exceeds 85% of the gross domestic product of many countries of the world and the Arab banking sector gave credit worth 1.7 trillion dollars, which constitutes 60% of GDP. Therefore, the results of that credit shows the weakness of the financing of these facilities because the average loan to finance small projects in the Islamic countries between 8 to 9%. In fact, the proportion varying from country to another according to policy. In the Gulf reach 2%, while in Jordan

10%, and 16% in Lebanon. However, these institutions get loans as of (21%) in spite of (74%) of the accounts managed by Banks. The financing of small projects in the Islamic world is facing the dilemma of lack of legislation and infrastructure next to funding constraints and the weakness of the limited capacity of these facilities [2]".

El Sawy says that "the obstacle of funding is one of the obstacles to develop the small projects. The holders of these projects tend to be professionals to do not but they lack the possessions savings. It will enable them to establish their projects as they do not have a lot of collateral that can be offered to Banks. On the other hand, the sources of funding in the form of loans, interest-bearing strain of these projects are the benefits of these loans. They consider them as a fixed cost to strain the shoulders of these projects and make them lose their competitive advantage with other projects in terms of the price of their products. They are also worried about a number of wishing to establish small projects from the suspicion of usury incurred an interest rate loans [6]".

The study issued by the Diplomatic Center for Strategic Studies "confirms that the Islamic banking development requires the adoption of a package of reforms. Notably, the need to take advantage of technology and new ideas and

techniques with the expansion of the launch and invent. The study revealed a state of feverish race between the world's major Banks to launch Islamic windows in an attempt to take advantage of the boom taking place in the Islamic finance industry. This is based funding to several principles such as lack on interest and not determined in advance or, more recently, the principle of participation in shouldering profit and loss. Thus, to cover financing fixed assets or business assets, as well as the subordination of all fields with the provisions of Islamic Sharia. Islamic finance takes a vision of the most important popular participation and Musharaka and Murabaha [1]”.

## 2. The Definition of Small and Medium Enterprises

The concept of small and medium enterprise varies from one country to another according to the different potential economic and social conditions such as the degree of industrialization and the nature of the components and factors of industrial production. It depends also on the quality of traditional craft-based industries by modern industry, and population density, It also differs from the definition in accordance with the its goal, whether it is for statistical purposes or financing purposes or for any other purpose.

Omar said that “speaking about the differences between the book and the organizations involved in defining the concept of small projects and they always resort to determine the private number of workers or capital [9]”. As reported, Beltagy “in Sudan selected number of employees for small institution with 25 workers or less [3]”. According to Gabriel There is variation in the definition of small industries. Although it is common in many countries definition of small industries on the basis of the number of workers. He is not agree on a certain number of workers as a basis of which is the definition of small industrial facility, and at the industrial survey in Sudan made in 1982 identified the employment size of a small industrial facility with 25 workers or less [7]”.

## 3. The Importance of Small and Medium Enterprises

Many economists believe that the development of small and medium enterprises encourages partnering, as well as medium-sized enterprises of the main pillars of economic and social development process in the countries in general. The report of the Arab Labor Organization “confirms that these projects have found various forms of care and support. For example, small and medium enterprises accounting for almost 90% of the establishments in the world and employ (50% - 60%) of the global workforce. Commercial Banks are usually contribute to large projects and prefers to deal and make loans to them, because of the low degree of risk among these projects on the one hand, and for ease of Banks with it treated on the other hand. also it required guarantees from small and medium enterprises to be financed [1]”.

## 4. The Financing Needs of Small Businesses and the Obstacles They Face

The “Published Chamber of Commerce and Industry magazine of Syria study reported the following pass small projects at its founding in several phases, and different forms of financing by the Tur, who pass it:

- (1). Establishment phase: is usually by the royal family.
- (2). The initial growth phase: the self through the profits that are reinvested.
- (3). The rapid growth phase: the owner can borrow money from Banks, using some of the organizations that assisted in the provision of guarantees as an organization, which lowers the cost of capital.
- (4). If the project needed a fresh investment to expand the business or to diversify its products, the funding can provide government agencies or the like.
- (5). It can reduce the cost of borrowed funds by issuing a number of laws pertaining to companies that have a certain exercise or work in a specific geographic location classification.
- (6). Banks are the source of the funds, which provide short-term financing.

Sometimes debt can be consolidated as a previous projects and scheduling to increase working capital in the medium term. It is essential that the banking system takes into consideration the economic and social environment for the financial community asset. In Sudan, we can confirm that Banks take into account the rules of Islamic law because many people are reluctant to deal with conventional Banks for legitimate reasons, leading to deprive their business from this type of financing despite the need for it. As well as Islamic Banks are using more flexible and productive more than the interest burdens of debtors system tools, such participation and participation ended tools with ownership, leasing, sale and leasing of Murabaha and so fort [10]”.

Yassin Said speaking about the obstacles faced by small businesses “in Sudan means that representing small and craft industries for more than 90% of the total units of the industrial sector. The main characteristic of these units is the Palace of old, even those units that stand behind them very powerful and emotion commitment by the owners (such as business, family) that will quickly weaken and fade completely after a generation or two [13]”.

That there is a government interested in small industries clearly evident in the past years has been the development of the management of small Ministry of Industry whose functions and responsibilities in the implementation of the support and encourage the development of small industries. It helps investors by providing technical information and consulting to provide all necessary assistance for the establishment of small industries and create relations of cooperation and coordination with the occupational and professional associations.

## 5. The Reasons for the Reluctance of Traditional Banks for the Financing of Small Enterprises

As cited by Beltagy "The most important reasons for the reluctance of traditional Banks for the financing of small enterprises are classified as follows:

(1). Inadequate lending standards for small businesses: the Banks put many of the criteria and conditions that must be met in facilities that can not get financing These criteria and conditions are often commensurate with the nature and characteristics of small enterprises.

(2). Weak financing structures for small businesses with put many Financial Ratios extracted Banks from the financial centers of facilities such as operational leverage ratios and the expenses of revenue and profitability ratios to other credit indicators, which can not be provided often in those facilities to determine creditworthiness and then the reluctance of those Banks for the financing of those facilities.

(3). The weakness of guarantees: The guarantees of the most important elements of the granting of credit in the Banks, and in practice do not have small businesses. The necessary guarantees for the financing is available, and then the Banks are reluctant to finance such facilities as a result of lack of adequate for grant funding guarantees. It was shown that the field study confirmed that the lack of guarantees of the main reasons for the reluctance of Banks to finance small enterprises [3]".

(4). Irregular accounting records: Banks are based on the grantee of the credit on the study of financial records and final accounts of regular and accredited auditors is not available in the majority of small enterprises. The majority of owners prefer not to hold regular books of the weakness of the potential and the low volume of activity, and only the owners constipation records statistical figure, as some people avoid tax problems.

(5). Inability to set up a credit file: many small banking experience facilities and the ability to set up a credit file: can be submitted to the Banks to obtain the necessary financing, which is set up that file in accordance with the proper banking norms are important for funding criteria.

(6). Lack of feasibility of a sound and objective studies of the most important Banks requirements of credit and there is a feasibility study to be funded facility for grants and often do not have small businesses avail the required level studies.

(7). High degree of risk: characterized by the majority of small businesses high degree of risk due to the nature of the composition, which depends on the majority on one person or one family, in addition to the weak financial centers, which is an obstacle to the Banks funding those facilities where the Banks are always concerned with the financing of low-risk installations, It was found from the field study that the risk of small enterprises ranging from medium to high risk.

(8). High interest rates on loans: The interest rates and terms of repayment of the loans represent the major obstacles to the demand of small enterprises to get financing from

Banks in particular.

(9). Inadequacy of traditional bank financing formulas for small businesses: The majority of small businesses need to finance medium and long term for the purposes of construction and investment, which does not comply with grant funding to Banks standards which always favors granting short-term loans.

*Practical framework for study*

## 6. The Development of Islamic Financing Mechanisms

Shaibi confirms that "Islamic Banks are defined as bank financial institutions to raise funds and employment and to provide banking services without violating Islamic law and the purposes and to serve the community justice in the course of the Islamic sense.

Islamic Banks are invited to full compliance with the foundations and pillars of Islamic economics of:

(1). The prevent dealing in interest rate and all its forms (taking or tender).

(2). The dual ownership (private and public).

(3). The restricted economic freedom.

(4). social integration and to achieve a balance in the human community (Muslims and non-Muslims).

(5). uphold the rule (halal and haram) in Islamic law and other Islamic routers.

(6). sheep Balgrm principle that any money not be victoriously unless you take the risk.

(7). raise the working basis earning logo.

(8). savings are channeled to areas that serve the economic development.

(9). linking economic development with social development goals [11]".

Shehata said "some of these formulas "of the most important Islamic Investment formats available to Islamic Banks and other authorized by jurists and put her legitimacy controls the following:

(1) - Islamic Mudaraba.

(2). Islamic Musharaka.

(3). Islamic Murabaha.

(4). Salam.

(5). Istisna'a.

(6). Ijara.

(7). Mutajara.

(8). Muzaraa.

(9). Istisna.

(10). contributions, such as, for example:

a. contributions, in the companies' capital.

b. contributions, in Islamic investment funds.

c. Contributions to large projects.

d. contributions, in Islamic insurance companies [12]".

## 7. The Methodology of the Study

In this study, we follow the descriptive and analytical

approach to compatibility with the nature of the study. We have been relying on the preliminary information through the questionnaire and interviews with Islamic Banks and the Central Bank of Sudan departments and secondary information will be collected through periodicals, magazines and various references.

## 8. The Fundamental Principles and Objective of the Sudanese Banks

The study found that the basic principles of the Banks represented in the principle of compatibility with Islamic law, followed the principle of liquidity and the principle of profitability and safety that clinched the principle of compatibility with Islamic law due to the nature of the Islamic banking system in Sudan. As that search Banks for achieving its goals in profitability and safety may make them more distant from the small and medium enterprises. The order of the fundamental goals of the management of the Banks of the economic targets by 69.2%, followed by the development goals by 46.2% in the same order of social goals, and finally the other goals by 30.8%. The research seek for the possibility of achieving the principles and objectives of the previous financing through Banks to small and medium enterprises. The majority of respondents 92.3% see the potential for Islamic Banks by providing finance for small and medium enterprises in the financial profitability along with the creation of the social development process. This is done according to the majority opinion by the following:

(1). The fact that the financing of these institutions does not differ from other financing only in the aspects related to safeguards and follow-up and therefore it is profitable financing and achieve social objectives.

(2). collective engineering projects where funding is a link between all stages of production and marketing, development and quality.

(3). Providing real investment opportunities contribute to the development of target.

(4). To identify achievable according to clear criteria for measuring social goals.

(5). Coordination among donors for funding, because the ratio of profit margin in the financing of these institutions is simple, requiring large financing the preparation and administrative expenses to be big and follow-up on the banks.

(6). Deployment in rural areas and exploit the untapped resources.

(7). Focus on the feasibility and determine the sources of income and needs studies and then funded.

(8). Finance feasibility projects with excellent follow-up and follow-up minutes.

(9). Diversify products to meet the need for these institutions to be funded.

(10). Use deposits owners of financial surpluses to fund these institutions and bring benefits to both sides of the

equation That supports the consensus of the interview sample on it and when you Islamic Banks financing small and medium enterprises, they achieved at the same time the objectives of these Banks in terms of financial profitability and social role desired her, and unanimously well as on targets small and medium-sized enterprises comply with Islamic Banks and objectives in terms of the theory of the at least, though this has not been translated compatibility in terms of process.

About the Banks funding formulas used on the whole it was the views of respondents as seen through the table 1.

**Table 1.** Order forms and mechanisms of Islamic financing is generally used in financing.

Mechanisms of Islamic financing	Repetition	Rate %
Murabaha	13	100
salam	13	100
Musharaka	13	100
Mugawla	13	100
Mudaraba	12	92.3
Ijara	6	46.2
Istisna	6	46.2
Qard Hassan	5	38.5
Other	5	38.5

Source: Prepared by the researcher

As Shown in Table 1 all Banks research sample used Murabaha, Musharaka, salam and Mugawala, participation and entrepreneurship 100% formats, and comes speculative formula Mudaraba in second place as it used about a dozen Banks from the research sample amounting to thirteen Banks by Banks, inter It amounted to about 92.3%, while six Banks of the research sample Banks using two versions of Ijara and Istisna by about 46.2% and sharecropping use other formulas formula (loan-Hasan and selling rental) with five Banks by about 38.5% of the sample Banks.

As shown in Table 3, the following formulas and funding mechanisms used in the financing of small and medium enterprises at the Banks of the research sample.

**Table 2.** Order forms and mechanisms of Islamic financing used in the financing of small and medium enterprises.

Mechanisms of Islamic financing	Repetition	Rate %
Murabaha	13	100
Musharaka	10	76.9
Salam	8	61.5
Mugawla	7	53.8
Mudaraba	6	46.2
Ijara	4	30.8
Istisna	4	30.8
Muzara'a	3	23.1
Other	1	7.7

Source: prepared by the researcher

As mentined in Table 2 all Banks research sample used Murabaha in financing small and medium enterprises. The participation formula took the second place with 76.9% as it used about ten Banks of the research sample. While, eight Banks from the sample Banks use salam formula in the financing of small and medium enterprises with 61.5%.

Seven Banks used entrepreneurial formula increased representing about 53.8% and the use of restricted Mudaraba in the financing of small and medium enterprises formula with six Banks about 46% of the sample Banks for financing small and medium enterprises and then tow formula Ijara and Istisna which are used in the financing of small and medium enterprises formula with for Banks about 30.8% of the sample Banks then the Muzara'a formula in the second to last with three Banks about 23.1% of the sample Banks for financing small and medium enterprises, and finally came the other formula (Quard Hassan and leasing seals) in the financing of small and medium enterprises formula with one Bank about 7.7% of the sample Banks. Thus, the new mechanisms funding formulas by the Supreme Sharia Board

Bank of Sudan. The central finance institutions preferences can be as follows:

- (1). Murabaha and Murabaha to buy something to reduce Almkhatr- covers many aspects of the needs of agricultural projects.
- (2). The participation to minimize risk and share it with the client.
- (3). The salam to provide monetary financing for agriculture in particular.
- (4). bank financing volume flow from commercial Banks

The table 3 shows the number of bank financing from commercial Banks according to the size of the formulas in local currency for the period from 2005-2013

**Table 3.** The number of bank financing from commercial Banks according to the size of the formulas in local currency for the period from 2005-2013.

Mechanisms of Islamic financing	Murabaha	Musharaka	Mudaraba	Salam	Mugawla	Ijara	Istisna	Qard Hassan	Others	Total
2005	3,010,283	2,143,049	292,321	145,157	-	-	-	-	1,362,870	6,953,680
2006	5,559,120	2,116,468	532,040	132,993	-	-	-	-	2,054,302	10,394,923
2007	7,315,101	1,631,380	497,619	81,715	-	-	-	-	3,061,470	12,587,285
2008	6,899,680	1,769,329	876,420	290,650	-	-	-	-	4,845,215	14,681,294
2009	8,186,340	1,641,402	956,036	349,618	1,005,582	24,779	-	-	3,496,029	15,659,786
2010	11,474,102	1,981,884	1,480,020	257,586	2,295,556	52,190	-	-	4,556,100	22,097,438
2011	14,312,933	1,548,468	1,424,744	174,806	1,952,167	35,795	-	-	3,880,274	23,329,187
2012	12,021,907	2,636,883	1,296,315	459,838	2,160,054	89,594	20,115	125,475	5,292,659	24,102,840
2013	18,012,731	3,740,711	1,772,902	665,257	3,929,456	331,230	32,387	99,619	5,238,195	33,822,488
Total	86,792,197	19,209,574	9,128,417	2,557,620	11,342,815	533,588	52,502	225,094	33,787,114	163,628,921
Rate %	53.04	11.74	5.58	1.56	6.93	0.33	0.03	0.14	20.65	100

Source: Central Bank of Sudan

The results shows that 54% of the total financing granted by commercial Banks during the period from 2005 until 2013 were directed through Murabaha and the rest was directed by the with 46%. The results confirms that the formulas used in the funding formula is Murabaha.

(5). *Consensus Islamic modes of financing with the*

#### *financing of small and medium enterprises*

Islamic finance is based on the participation in the sheep Balgrm and therefore is based on real assets. It does not distinguish between projects in terms of size. Thus, it make more palatable for the financing of small and medium enterprises from the traditional financing.

**Table 4.** Over the Islamic modes of financing agree with the financing of small and medium enterprises.

Mechanisms of Islamic financing	Strongly A gree		Agree		Idont Know		Disagre		Strongly Disagre		Total	
	%	Repetition	%	Repetition	%	Repetition	%	Repetition	%	Repetition	%	Repetition
Murabaha	46.2	6	53.9	7	-	-	-	-	-	-	13	100
Musharaka	46.2	6	38.5	5	-	-	7.7	1	7.7	1	13	100
Mudaraba	38.5	5	30.8	4	7.7	1	7.7	1	15.4	2	13	100
Salam	30.8	4	38.5	5	7.7	1	23.1	3	-	-	13	100
Istisna	30.8	4	30.8	4	15.4	2	7.7	1	15.4	2	13	100
Mugwala	23.1	3	38.5	5	23.1	3	7.7	1	7.7	1	13	100
Ijara	53.9	7	23.1	3	7.7	1	7.7	1	7.7	1	13	100
Muzaraa	38.5	5	38.5	5	7.7	1	7.7	1	7.7	1	13	100
Others	7.7	1	77	10	-	-	7.7	1	7.7	1	13	100

Source: prepared by the researcher

#### *The first formula: Mudaraba*

The results above shows that the proportion of those who agree in general (those who agree and those who agree

strongly) amounted to 69.2%. While, the percentage of non agree in general is about 23.1%. This mean that all the samples are in general agree ith the Murabaha as a formula of

financing small and medium enterprises.

*The second formula: Musharaka*

The results above shows that 84.6% of the sample are totally agree, while the overall percentage of non-consenting generally rich 15.4%. This reflects the views of the direction of the positive sample powerful members strongly about sharing formula with the financing of small and medium enterprises agree.

*The third formula: Murabaha*

According to the sample, Al Murabaha mecanism is efficient with the financing of small and medium enterprises agree.

*Fourth formula: Salam*

Approvers accounted Amoma 69.3%, while non-consenting overall percentage stood at 23.1%, while the percentage of those who selected one I do not know 7.7% and reflects the views of the direction of the positive sample strong individuals towards salam formula with the financing of small and medium enterprises agree.

*Fifth formula: Istisnaa*

Over then 69% of the sample are agree with Al Salam as a mecanism of financing.

*Sixth formula: Mugawala*

The majority of the sample 62% confirm that the Istinaa could be a efficient formula of financing mecanism ratio stood at 62%. While, the overall shape of approvers is generally 15%. This reflects the direction of the strong views of the positive sample members about contract formula with the financing of small and medium enterprises agree.

*Seventh formula: Ijara*

The aprovers ratio is generally about 77%, this reflects the views of the direction about the formula leasing with the financing of small and medium enterprises.

*Eighth formula: Muzaraa*

The approvers ratios reach 77%, compared with who are not in agreement (15.4%), this reflects the views of the direction about the farmer with the financing of small and medium enterprises format compatibility.

*Ninth formula: Other formats*

The formed approvers proportion is generally about 84.7, while the percentage of non-consenting overall 15.3% and reflects the views of the direction of the positive sample strong individuals toward other Islamic financing modes agree with the financing of small and medium enterprises.

As shown in the above analysis, it exists a strong tendency of respondents to the general approval of the Islamic modes of financing agree with the financing of small and medium enterprises.

**Table 5.** The existence of relevant research and development with the Sudanese bank management.

Does the Bank competemt of research and development	Repetition	Percentage %
Yes	11	84.6
NO	2	15.4
Total	13	100

Source: prepared by the researcher

Table 5 above that the majority of the Banks has involved the research and development department (84.6%). while, there are no such administration has a simple ratio of approximately 15.4% of the total sample size. Also, consistent with the policies included in the interview of Central Bank of Sudan, which confirmed the presence of management is concerned with development policy, research and development department to play this role alongside other departments such as management of banking and help the banking system development management control next to the Supreme Sharia Board. We can confirm then, that there is a satisfactory outcome of these efforts consisted in the development of some formulas Kalmquaolh and Istisna and Ijara ended with ownership and leasing of benefits and services and salam.

The table below shows the rate of whether there was a real effort to develop Islamic finance formulas.

**Table 6.** Actual efforts to develop Islamic finance formulas.

Do You have actual Efforts to Develop Islamic Financing Formulas	Repetition	Percentage %
Yes	9	82
No	2	18
Total	11	100

Source: prepared by the researcher

The table above shows that the majority of Banks has a real effort to develop funding formulas at a rate of about 82%. while, there are no such efforts have a small percentage of the total sample size of about 18% of the total sample size. The Central Bank of Sudan confirms that there is a tendency to oblige all Banks to establish departments involved in development and will be strengthened qualified and trained cadres of the Central Bank of Sudan to help them.

**Table 7.** The possibility of pairing and installation between the Islamic modes of financing.

The possibility of pairing and installation between the Islamic modes of financing	Repetition	Percentage %
Yes	9	69.2
No	4	30.8
Total	13	100

Source: prepared by the researcher

The results above confirm that the majority of the research sample are agree with the possibility of installation and combination of formulas and mechanisms of Islamic finance (69%). while, for the minority by about 30.80 of the sample is not possible. The installation and the combination of the following formulas is pratically possible:

- (1). farmer + Ijara ended with ownership.
- (2). Murabaha + ladder.
- (3). Murabaha + contract.
- (4). contractor + Murabaha + ladder.
- (5). Murabaha + participation.

The application was applied on the following activities:

- (1). Financing agriculture production and infrastructure Ijara ended with ownership.
- (2). Lighting villages of Singa Murabaha for citizens project and contract with the executing company.
- (3). The granting of production inputs Murabaha is plowing Palmquaoalh and made the process of converting an interview expenses for the farmer to salam in cash.

These applications and directed several problematic can be summarized thus briefly as

- (1). Non-availability of sufficient experience.
- (2). The lack of understanding of the customer contract vehicle.
- (3). The increase of the risk factor.

**Table 8.** The most important reasons imposed on the Sudanese Banks and the adoption and development of Islamic financing techniques are classified in following table.

The most important Reasons	Repetition	Percentage %
Characterized Islamic Financing Techniques Multiculture and Diversity to meet all requirement	13	100
to maintain the self-identity of Muslims	10	76.9
achieve justice between the parties to the transaction	10	76.9

Source: prepared by the researcher

The table above shows that the consensus of the research sample to characterize Islamic financing techniques multiculturalism and diversity face all the requirements imposed on these Banks, while, the majority of respondents (76.9%) maintain the self-identity of Muslims as that Islamic financing techniques achieve justice between the parties to the transaction. The importance of the development of banking products could be clarified in the following table:

**Table 9.** The importance of the development of banking products in general.

Reasons	Repetition	Percentage %
reduced investment risk by diversifying formula and sectors	12	92.3
to support the competitive position	12	92.3
to meet the evolving needs of customers	11	84.6
diversify profit sources	11	84.6
To increase the banking experience	9	69.2
to avoid the obsolescence of existing products	6	46.2

Source: prepared by the researcher

The results above shows that the majority of the sample (92.3%) believes that the importance of the development banking products reduce the investment risk by diversifying formula and sectors while, 84.6% of the sample proportion confirms the importance of development to face the evolving needs of customers, and diversify the profit sources. 46.2 percent confirm the importance of the development to avoid the obsolescence of existing products to maintain coping been strengthened through the answers to the interview directed to the Central Bank of Sudan questions and the Union of

Sudanese Banks with a slight difference in the Order some goals. This explain the development of banking products.

The importance of the development of Islamic banking products for Banks can be clarified through the following table:

**Table 10.** The importance of the development of Islamic banking and financial products.

Reasons	Repetition	Percentage %
to reduce investment by diversifying formula sectors risks	13	100
to diversify sources of profitability	11	84.6
to support the competitive position	10	76.9
to avoid the obsolescence of existing products to maintain the escort	6	46.2

Source: prepared by the researcher

About 85% of Banks confirm the the importance of developing financial products for Islamic Banks in order to reduce investment by diversifying formula sectors risks. The table follow shows the importance of developing the Islamic financial products.

**Table 11.** The best way for the development of Islamic financial products.

The best way	Repetition	Rate%
The innovation	11	84.6
discovery and analysis of customer needs and then work on the design of products fits through a combination of tradition and innovation	11	84.6
sample simulation products and traditional banking industry	9	69.2
	8	61.5

Source: prepared by the researcher

It is clear that the majority of respondents 84.6% confirm that the total size of the sample believes that the best way for the development of Islamic financial products are innovation, discovery and analysis of customers needs. Then, working on the design of products fits, been strengthened this view of the Bank of Sudan (The Central Union of Sudanese Banks) during the interview. while, the ability of saw ratio of about 69.2% of the total sample size that the development is happened through a combination of tradition and innovation, as called for 61.5% of the sample simulation products and traditional banking industry size ratio.

The researcher confirms the consistent funding between the Islamic Banks and their objectivs and basic principles for the combination. The possibility of installation and pairing between the various Islamic financing to face the needs of small and medium-funded institutions formats, and the presence of the process has been applied to experiments.

In addition, the irregular accounting records and the lack of adequate safeguards and the lack of access to financial solvency, and the absence of proper feasibility studies of the most important obstacles to the funding of the Sudanese Banks for small and medium enterprises, so it is located in another priority for grant funding. Thus, the main reasons imposed on the Islamic Banks to develop products that the diverse and multi Islamic finance methods which meet the

various needs of small and medium enterprises to be funded.

## 9. Conclusion

This study confirm the possibility of financing small and medium enterprises through funding formulas offered by Islamic Banks through murabaha and participation, Musharaka and others with a need for a specific definition by the Central Bank of Sudan. The Central Bank and therefore the commercial Banks should participate for the findinf of small and medium enterprises. The commercial Banks configures departments concerned with research and development and to study the discovery and analysis of customer needs and then design products fits innovation across the entrance and away from tradition.

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