E-ISSN: 1115 - 8530 P-ISSN: 3026-8958
MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT
VOL. 04 NO. 7 – APRIL, 2024

ISLAMIC MODES OF FINANCING SMALL SCALE ENTERPRISES IN RURAL COMMUNITIES OF KATSINA STATE

***MUSA SANI; **DR. NASIRU ADAMU; & ***AISHATU ABDULLAHI MOHAMMED**

*Department of Islamic Studies, Isa Kaita College of Education, Dutsin-ma, Katsina State. **Department of Economics, Isa Kaita College of Education, Dutsin-ma, Katsina State. ***Department of Social Sciences, Federal polytechnic Bida.
musasanib73@gmail.com

Keywords: Islamic Finance, Musharakah, Mudarabah, Ijarah, Katsina State.

Abstract

Islamic finance have provided an efficient alternative source of financing micro, small and medium scale enterprises. This study examines Islamic modes of financing small scale enterprises in rural communities of Katsina state, primary data was sourced from the administration of one hundred and ninety questionnaires across the three senatorial districts of Katsina which were selected based on non-probability sampling. The study also utilizes Chi-square hypothesis testing and Logit regression model to ascertain the relative impact of the explanatory variables of rural business enterprises in Katsina state. The study revealed that most of the rural entrepreneurs are not conversant with most of the Islamic modes of financing small and medium scale enterprises. It was also found that Religion is the only explanatory variable that has significant impact on awareness and accessing Islamic Financial products with the Co-efficient of 1.824 which is statistically significant at 5%. Musharakah, Mudarabah as modes of Islamic financial products, Religion and Level of Education as control variables are found to have significant impact on small and medium scale enterprises on rural enterprises in Katsina state. It is recommended that both policy makers and Islamic financial institutions should embark on a wider publicity and sensitization of business entrepreneurs on the benefits of Islamic financial products. This will enhance financial access and improve financial inclusion. Religion should also not be a barrier to accessing Islamic financial products and this stresses the need for patronage to

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Islamic financial products and services which is gaining global practicability. Lastly, the need for availability and accessibility of other Islamic financial products, especially the non-profit and loss sharing financial products that will increase the inclusion of both Muslim and non-Muslim faithfuls to reap the benefits of Islamic financial products.

Introduction

Small and medium scale enterprises are believed to play a significant role in employment generation and a means of earning livelihood among rural and urban communities. These enterprises are seen as strong determinants for economic growth and development. Moreover, financing small scale enterprises required initial outlay and the need for periodic assessment of credit facilities to boost the operations and market for products and services (See Sa'adatu 2020). The most critical setback suffered by these enterprises is the relative scarcity of financial resources and high cost of assessing and repaying back the amount assessed from lenders (Financial institutions) which limits the likelihood of business expansion and operation and productivity. Hence, the need for and alternative source of finance which is devoid of exploitation and is relatively chief in accessibility and easy in repayment while leading to growth and development of enterprises and will not worsen the debt burden of the enterprises (See Muhammad et-al 2018). While enterprises are faced with challenges of raising profitable fund for investment, expand their businesses and have access to latest technology in a highly competitive business environment.

Conventional banks usually provide readily available financial resources for potential business operators to invest in a certain business undertaking. However, these financial resources are paid back at a higher cost which can only be met in ventures with higher rate of return (Investments with higher Net Present Value) and the servicing of which erode a considerable portion of the mark-up and gains from business operations and hence the need for an alternative source of finance which is free from exploitative tendencies and that can bridge the existing financial gap that hinder the creation and sustenance of small scale ventures in both rural and urban communities.

Small Enterprise operating based on Islamic principles is not new ideology for the SME industry. The definition of the Islamic micro enterprise is actually an idea and perspective from Islamic point of view on the firm and enterprise. Most of the Islamic scholars agree that Islam and business are inter-related. In Al-Quran has mention on the relation of Islam and business which focus on the ethics, roles, responsibility, prohibition and benefit. One of the example is from Surah Al-Baqarah[275] " Allah prohibit riba and permissible trading" .Based on Sarker & Awal (1999), firm from Islamic context have two objective which is work for the falah or known as welfare obligation and at the same time looking on the profit maximization. The author also lists down some of the rules for the firm when

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

it operated based on the Islamic perspective. The rules are priority on community welfare and prohibition on of unfairness activities during the trading.

The ideology of Islamic business firm can be extended to the establishment of Islamic banking and finance institutions into the market. Throwback of 40 years establishment of the industry since the modern Islamic banking setup by Dubai Islamic Bank in 1975, the Islamic bank and finance now having a fast moved with spreading the market into the non-muslim country. There is much experience gained by the industry although the conventional counterpart still dominated the financial market. It can be looked into the changes on the products, regulation, shariah issues, professional man power and political support which was helped the institutions more strength and perform.

The tremendous development of Islamic Finance industry and Shariah compliant business sectors promotes the economic expansion as a new source income. As the demand of Shariah-compliant products and this matter shows that more people are aware of Islamic products and services. Islamic finance defines as financial service or product that in-line with Shariah rulings. There are five features that highlights in Islamic finance, for instance riba (interest), haram (forbidden) or halal (permissible), gharar (speculative) or maisyir (gambling), zakat (purifying alms) and Shariah (Islamic) board (Lewis and Algaoud, 2001). The concept of financing in Islam is different with western financing. A profit and lost (PLS) scheme is the unique features of Islamic banks, it is a combination between two principles namely mudharabah (profit-sharing) and musharakah (joint-venture). Theoretically, there is an assets and liabilities of lenders and borrowers involved in this unique scheme. It allows Islamic banks to lend in longer period with higher risk-return profiles. But many Islamic economic and finance experts suggests that profit/sharing scheme use murabaha (cost-plus sale) like many Islamic institutions in Indonesia implement (Huda, 2012).

Statement of Problem

Finance microenterprise is a new-paradigm in bringing up the economic expansion and at the same time eradicating poverty (Ahmed, 2002). The growth of microenterprise is important to generate employment and to help the development of poor countries. Furthermore, microenterprise have advantages in increasing the aggregate output, it offers the efficient use of capital and labor, instigating indigenous enterprise and management skills, transporting a regional balance and most importantly enlightening the dissemination of earnings (Bank study, 1978). Despite the advantages, microenterprise also face the problems like low pays, lack of infrastructure, scarce of resources and this such problems hinder the growth of small enterprise.

In a developing economic perspective, Bennet (1998) highlights the occurrence of physical and socioeconomic barriers between financial institutions and clients. Bennet claims the problems can stressed the asymmetric information problems. Thus, the physical obstacles like limited of markets, roads, power and communication will conflict

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

the problems of selection and moral hazard. From the socioeconomic side, the clients are likely to have low mathematical skills because of illiteracy. Status, culture and gender aspects averting contribute to the hostile selection problem. On the other hand, (Ayyagari, Demirgüç-Kunt, and Vojislav, 2005) use the firm level survey data to report the present the different setting of business environment, shows that finance, crime and political imbalance give a direct impact of the firm growth and emphasized that finance gives the powerful contributor. This finding supported by Beck & Demirguc-Kunt (2006) that the access to finance become the essential of growth barrier for SMEs. In capitalism, interest is the form of reward from capital production (Hanif and Iqbal, 2010). The industry offers savings and loans on interest basis, however, chagrining interest is forbidden for many religions including Islam, Christianity and Judaism. Consequently, Muslim left no choice, yet to establish financial institutions that comply with Islamic rulings.

In the case of microenterprise, Garmeen Bank in Bangladesh become the pioneer to provide financial support for the poor (Ahmed, 2002). Therefore, they established the microfinance as a new concept in banking that has certain criteria to get the finance. An empirical research by Beck and Demirguc-Kunt (2006) shows that access to finance is the essential elements for growth constrain for SMEs. Beck and Demirguc-Kunt suggests that financial and legal institution play an important role to release this constraint and innovative financial instruments would able to access finance to facilitate SMEs. Evidently, bank usually not interested giving financing to micro entrepreneurs due to high credit of transaction cost per unit.

Many studies have been conducted to survey the impact of source of financing towards the successful of SME industry. One of the sources of financing is from the program of Microcredit. A study conduct by (Copestake et al., 2001; Kuzilwa, 2005, Carter and Shaw, 2006; Hietalahti dan Linden, 2006), shows that, there is positive relationship between the Microcredit scheme towards helping to those SME entrepreneurs. The program was proved with resulted on the impact of their income, output and welfare. This microcredit scheme was changing their social life which previously in a poor condition. However, the study only conducted the impact from the source of financing of conventional microcredit. It is against this background that the present study intends to explore the Islamic modes of financing small enterprises available and accessible to rural communities in Katsina with a view to enhancing financial inclusion among rural entrepreneurs in Katsina state.

Conceptual Literature

This section provides conceptual issues on Islamic principles of finance which is classified as Profit and Loss sharing (PLS) and Non-profit and Loss Mode of finance. Beginning with Principle of equity: Scholars generally invoke this principle as the rationale for the prohibition of predetermined payments (*riba*), with a view to protecting the weaker contracting party in a financial transaction. The term *riba*, which means "hump" or

"elevation" in Arabic, is an increase in wealth that is not related to engaging in a productive activity. The principle of equity is also the basis for prohibiting excessive uncertainty (*gharar*) as manifested by contract ambiguity or elusiveness of payoff. Transacting parties have a moral duty to disclose information before engaging in a contract, thereby reducing information asymmetry; otherwise the presence of *gharar* would nullify the contract. The principle of equity and wealth distribution is also the basis of a 2.5 percent levy on cash or in-kind wealth (*zakat*), imposed by *Shari'ah* on all Muslims who meet specific minimum levels of income and wealth to assist the less fortunate and foster social solidarity.

Principle of participation: Although commonly known as interest-free financing, the prohibition of *riba* does not imply that capital is not to be rewarded. According to a key *Shari'ah* ruling that "reward (that is, profit) comes with risk taking," investment return has to be earned in tandem with risk-taking and not with the mere passage of time, which is also the basis of prohibiting *riba*. Thus, return on capital is legitimized by risk-taking and determined ex post based on asset performance or project productivity, thereby ensuring a link between financing activities and real activities. The principle of participation lies at the heart of Islamic finance, ensuring that increases in wealth accrue from productive activities.

Principle of ownership: The rulings of **"**do not sell what you do not own" (for example, short-selling) and **"**you cannot be dispossessed of a property except on the basis of right" mandate asset ownership before transacting. Islamic finance has, thus, come to be known as asset-based financing, forging a robust link between finance and the real economy. It also requires preservation and respect for property rights, as well as upholding contractual obligations by underscoring the sanctity of contracts. Instruments of Islamic Finance

In Islamic finance, the term "loan" refers only to a benevolent loan (*qard al hasan*), a form of financial assistance to the needy to be repaid free of charge. Other instruments of Islamic finance are not referred to as "loans' but rather as financing modes falling under one of the three categories: Profit-and-loss sharing (PLS), non-PLS contracts, and fee-based products

Profit and Loss Financing Products

PLS financing is closest to the spirit of Islamic finance. Compared with non-PLS financing, its core principles of equity and participation, as well as its strong link to real economic activities, help promote a more equitable distribution of income, leading to a more efficient allocation of resources. There are two types of PLS financing: *musharakah* and *mudârabah*, (see Nurul'Alam, 2016).

Musharakah is one of the profit-and-loss sharing partnership and the most widely practice mode of Islamic financing. It is a contract of joint partnership where two or more partners provide capital to finance a project or own real estate or movable assets, either

on a permanent or diminishing basis. Partners in *musharakah* have a right to take part in management; they seem to bear the greatest risk among all Islamic financing modes with the potential for earning the highest reward. However, whereas profits are distributed according to pre-agreed ratios, losses are shared in proportion to capital contribution.

Mudârabah is another profit-sharing and loss-bearing mode, contract where one party supplies funding (financier as principal) and the other provides effort and management expertise (*mudarib* or entrepreneur as agent) with a view to generating a profit. The share in profits is determined by mutual agreement but losses, if any, are borne entirely by the financier, unless they result from the *mudarib's* negligence, misconduct, or breach of contract terms. *Mudârabah* is sometimes referred to as a sleeping partnership because the *mudarib* runs the business and the financier cannot interfere in management, though conditions may be specified to ensure better management of capital. Islamic banks mainly make use of *mudârabah* financing to raise funds; *mudârabah* contracts are also used for the management of mutual funds.

Non-Profit and Loss Financing Products

Non-PLS contracts are most common in practice. They are generally used to finance consumer and corporate credit, as well as asset rental and manufacturing. Non-PLS financing instruments include *murâbaḥah, ijārah, salam*, and *istisna'*.

Murâbaḥah: is a popular *Shari'ah*-compliant sale transaction mostly used in trade and asset financing. The bank purchases the goods and delivers them to the customer, deferring payment to a date agreed by the two parties. The expected return on *murâbaḥah* is usually aligned with interest payments on conventional loans, creating a similarity between *murâbaḥah* sales and asset-backed loans. However, *murâbaḥah* is a deferred payment sale transaction where the intention is to facilitate the acquisition of goods and not to exchange money for more money (or monetary equivalents) over a period of time. Unlike conventional loans, after the *murâbaḥah* contract is signed, the amount being financed cannot be increased in case of late payment or default, nor can a penalty be imposed, unless the buyer has deliberately refused to make a payment. Also, the seller has to assume any liability from delivering defective goods. *Murâbaḥah* transactions are widely used to finance international trade, as well as for interbank financing and liquidity management through a multistep transaction known as *tawarruq*, transactions are not considered compliant with *Shari'ah* principles.

Ijārah is a contract of sale of the right to use an asset for a period of time. It is essentially a lease contract, whereby the leaser must own the leased asset for the entire lease period. Since ownership remains with the leaser, the asset can be repossessed in case of nonpayment by the lessee. However, the leaser is also responsible for asset maintenance, unless damage to the leased asset results from lessee negligence. This element of risk is required for making *ijārah* payments permissible. A variety of *ijārah* takes a hire-purchase form, whereby there is a promise by the leaser to sell the asset to the lessee at the end

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

of the lease agreement, with the price of the residual asset being predetermined. A second independent contract gives the lessee the option to buy the leased asset at the conclusion of the contract or simply return it to the owner (See Nurul'Al'Alam, 2016).

Salam is a form of forward agreement where delivery occurs at a future date in exchange for spot payment. Such transactions were originally allowed to meet the financing needs of small farmers as they were unable to yield adequate returns until several periods after the initial investment. A vital condition for the validity of a *salam* is payment of the price in full at the time of initiating the contract, or else the outcome is a debt-against-debt sale, which is strictly prohibited under *Shari'ah*. The subject matter, price, quantity, and date and place of delivery should be precisely specified in the contract. In the event that the seller can neither produce the goods nor obtain them elsewhere, the buyer can either take back the paid prices with no increase, or wait until the goods become available. Should one of the parties fail to fulfill their contract, the bank will get back its initial investment, but will have to accept the lost profit. To reduce exposure to credit risk, the bank may ask for a financial guarantee, mortgage, advance payment, or third-party guarantee.

Istisna' is a contract in which a commodity can be transacted before it comes into existence. The unique feature of *istisna'* (or manufacturing) is that nothing is exchanged on the spot or at the time of contracting. It is perhaps the only forward contract where the obligations of both parties are in the future. In theory, the *istisna'* contract could be directly between the end user and the manufacturer, but it is typically a three-party contract, with the bank acting as intermediary. Under the first *istisna'* contract, the bank agrees to receive payments from the client on a longer-term schedule, whereas under the second contract, the bank (as a buyer) makes progress installment payments to the producer over a shorter period of time.

Empirical Literature

Many studies on Islamic Finance in Nigerian context tend to focus of its impact on economic growth and financial inclusion. For example, Mustafa, Baita and Usman (2018) studied the nine countries considered as the core market of Islamic Finance as their lessons apply to Nigeria including Saudi Arabia, Malaysia, the United Arab Emirates, Kuwait, Qatar, Turkey, Indonesia, Bahrain and Pakistan. Using structural equation modeling (SEM), the research findings indicated that there were significant positive impacts of IF on economic growth and financial inclusion therefore recommending that Nigerian government to strengthen the growth of IF for more developmental gains and opportunities.

Due to the potential roles of Islamic Finance in terms of economic, human and capital development particularly in cruising through the Covid-19 pandemic, Gwadabe and Ab Rahman (2018) made an attempt at developing a framework of waqf to youth empowerment in the entrepreneurship and human capital development for the socio-

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

economic development of Kano state. In addition to this aspect of the literature, some studies (Mustapha et al. 2020) investigated the legal aspect of Islamic Finance. At the national level, Lawal and Imam (2016) assessed IF contribution to the growth of Nigerian economy. Using time series data from 2012 to 2015, the article used Islamic banks' financing credited to private sector via various mode of financing was basically used as a proxy for IF, foreign direct investment (FDI) and trade as the variables explaining Real Gross Domestic Product (RGDP). Findings of the research revealed that there was a strong positive association between Islamic bank's financing and economic growth in Nigeria.

IF is a method of financing that is expected to play a significant role in tackling social problems. Along these lines, Okeke and Grace (2012) conducted an exploratory research in which they argued that Nigeria stood to benefit from the various prospects of Islamic banking and finance including availability of adequate capital with no interest, employment provision, higher economic growth, partnership between lender and borrower leading to a mutual share in both gains and losses of the business and so on. This was what later on Muhammad, Maidoki and Sani (2018) examined in their research i.e. the role of Islamic social finance in youth and women empowerment in Sokoto state, Nigeria. Using focused group discussions, findings of the research revealed that the youth were able to harness their potentials as they managed to expand their businesses and upgraded the quality of the products and services they sell. Women, on their part, were able to improve their welfare and that of their children to a better level and were also able to maintain their chosen businesses as their sources of livelihood. With regard to the social benefits of Islamic Finance, a similar research to that of Muhammad, Maidoki and Sani (2018) was carried out by Abdul Kareem et al. (2021) in which they argued that IF reduce poverty and inequality, and also contribute to the economic development of the country. The issue examine by this research is similar to that tackled in Oshodi (2016) where it was argued that the principles of Islamic banking and finance can be employed in meeting the challenges of poverty and unemployment. The research further argued that IF can contribute to overall socioeconomic transformation and people-centered approach to economic development in Nigeria and the wider African context.

Similar to Lawal and Imam (2016), a more recent attempt by Abubakar and Saeed (2020) identified the causes of economic crisis in Nigeria and how Islamic Finance is the panacea to the crisis faced by Nigeria. Part of the reasons why Islamic Finance is the solution, as argued in the research, is because of the causes of economic crisis in Nigeria examined by the research that include high interest rate, poor economic planning, high taxation, over reliance on foreign debt, high inflation and bad management. However, while it is logical to see how Islamic financing can mitigate some of the causes highlighted by research such as high interest rate and over reliance on foreign debt, it is harder to see how it can help in solving the causes identified including bad management, high taxation, and high inflation. Empirical evidences are required to warrant such claims.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

The most relevant research to the problem under examination herein is Lawal and Imam (2016) in which they investigated the role of IF for the realization of Sustainable Development Goals (SDGs) in Nigeria. It was revealed by the research that, using its social re-distributive instruments such as Sadaqah, Zakat, Waqf etc. and its financial instruments including Sukuk, Musharakah, Murabahah and so on, IF will have positive impacts on the economy. Such impacts by extension will lead to the realization of the SDGs.

A few conclusions can be drawn based on the studies reviewed throughout this literature review section. The first sub-section of the literature review gave a general view about IF. The studies in that subsection focused on the emergence of IF and it tends to help in solving financial crisis caused by the conventional financial system and structure. The subsection also showed that IF has been studied as a means of social financial enterprise. The studies reviewed under the second subsection of the literature review focused on the emergence of IF as an alternative source of financing in some countries within the global South. The last subsection focused on IF as an alternative source of financing in Nigerian context.

It is therefore plausible to conclude that there are studies on Islamic Finance generally and as an alternative source of financing for the global South. However, with regard to IF as an alternative source of financing for the global South, what is found to be available is dearth implying that there are existing gaps within the extant literature that require more scholarly attention. The works on Nigeria focused on the role of IF in Nigeria's economic growth. From the few studies reviewed, none looked at the emergence of IF as an alternative source of financing for Nigeria within the context of the global South. Similar to Lawal and Imam (2016), a more recent attempt by Abubakar and Saeed (2020) identified the causes of economic crisis in Nigeria and how IF is the panacea to the crisis faced by Nigeria. Part of the reasons why IF is the solution, as argued in the research, is because of the causes of economic crisis in Nigeria examined by the research that include high interest rate, poor economic planning, high taxation, over reliance on foreign debt, high inflation and bad management. However, while it is logical to see how Islamic financing can mitigate some of the causes highlighted by research such as high interest rate and over reliance on foreign debt, it is harder to see how it can help in solving the causes identified including bad management, high taxation, and high inflation. Empirical evidences are required to warrant such claims.

Data and Methodology

Primary data was sourced mainly from the administration of one hundred and ninety (190) questionnaires distributed based on non-probability sampling technique which is more convenient and provide direct opportunity for the researchers to contact the respondents.

Variables Measurement

Variables measured in the study based on the literature reviewed are the products of Islamic financial products which include both profit and loss and non-profit and loss financial products as follows:

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Musharakah, and Mudarabah. Others are; Murabahah, Ijara, Salam, Istisna'. Religion and Educational attainment of the respondents are added as a control variable. These are expressed in the model that specified the variables analyzed in the study as;

$ISBAP = \beta_o + \beta_1 MSHAK + \beta_2 MDARB + \beta_3 MRABH + \beta_4 IJARA + \beta_5 SALAM + \beta_6 ISTIS + \beta_7 RELIG + \beta_8 EDUAT + \mu$ ……(1)

ISBAP stands for Islamic Banking products as the dependent variable. MSHAK is Musharakah, MDARB stands for Mudarabah as identified as profit and loss sharing financial products. MRABH stands for Murabahah, IJARA stands for Ijara, SALAM means Salam and ISTIS stands for Istisna'as independent variables. RELIGH stands for Religion of the Respondents and EDUAT is their Educational attainment which are added as control variables. μ is the stochastic disturbance term. β_o is the constant parameter, β_1, β_2, β_3 β_4 β_5 β_6 β_7 β_8 are the parameters of the independent variables and control estimated.

Method of Data analysis

Data obtained for the study was analyzed based on descriptive and inferential Statistics. Data is presented in tables using frequencies and percentages to show the demographic characteristics of the respondents and their awareness of the existence of the Islamic financial products. Chi-Square and Logit Regression Model were carried out as econometric tools to test the level of awareness of rural entrepreneurs on the existence of Islamic financial products and ascertain the effects of the control variables on explanatory variables.

Chi-Square test was conducted based on the formula;

$$X2 = \frac{\sum(fo - fe)^2}{fe}$$

Where X^2 (Chi-Square) is calculated as *fo* as the observed frequency and *fe* is the expected frequency measured against the degree of freedom X^2 $df = (r - 1)(c - 1)$ where r and c are the number of rows and columns in the table.

Table 1: Demographic Features of the sample

Variables	Type	Frequency	Percent
Gender	Male	131	68.95
	Female	59	31.05
Age (in years)	20 – 30	76	40.00
	31 – 40	52	27..37
	41 – 50	47	24.74
	More than 50	15	07.89
Education	First school leaving certificate	54	28.42
	Secondary School	61	32.11

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

	NCE/Diploma	43	22.63
	Bachelors	25	13.16
	Masters & Ph. D	07	03.68
Religion	Islam	156	82.11
	Christianity	31	16.84
	Traditional	02	01.05
	Others	00	00.00

Source: Field Work, 2023

Table one presents the demographic characteristics of the respondents, it begins with gender in which one hundred and thirty-one (131) are male representing 68.95% while fifty-nine (59) representing 31.05% are female. Educational Attainment of the respondents has fifty-four (54) respondents, sixty-one (61) has secondary school certificates, forty-three (43) have either NCE or Diploma, twenty-five (25) have first degrees representing 13.16% while seven (7) of the respondents have higher degrees which represents 3.68%. Next is the religion of the respondents, one hundred and fifty-six of the respondents representing 82.11% are Muslim faithful's, thirty-one are Christians representing 16.84% of the respondents while 2 of the respondents practices traditional religion.

Table 2: Awareness table

Variable	Response	Frequency	Percentage
Musharakah	Yes	94	49.47
	No	96	50.53
Mudaraba	Yes	78	41.05
	No	112	58.95
Murabaha	Yes	49	25.79
	No	141	74.21
Ijara	Yes	47	24.74
	No	143	75.26
Salam	Yes	46	24.21
	No	144	75.79
Istisna'	Yes	39	20.53
	No	151	79.47

Source: Field Work, 2023

Table 2 presents the level of awareness of the respondents on the existing Islamic Modes of financing Micro and Small enterprises. 94 respondents are conversantn with Musharakah as a mode of finance 49.47% while 96 of the respondents representing 50.53% of the respondents are not conversant with Musharakah as amode of finance. On Mudarabah as a mode of finance, 78 are aware of its existence while 112 are not aware of

its existence which represent 41.05% and 58.95% respectively. 49 respondents are conversant with Murabahah as a mode of finance which represent 25.79% while 141 of the respondents are not conversant with Murabahah as a mode of Islamic mode of finance. 47 of the respondents are aware of the existence of Ijara as a mode of finance while 143 are not conversant with Ijara as a mode of financing Small and Medium Scale enterprises which represent 24.74% and 75.26% respectively. Result on awareness of Salam as a mode of finance indicates that 46 respondents are conversant with Salam while 144 are not conversant with Salam representing 24.21% and 75.79% of the respondents. 39 of the respondents are conversant with Istisna' as an Islamic mode of finance while 151 are not conversant with Istisna' which represent 20.53% and 79.47%.

Table 3: Chi-Square Hypothesis Testing

Variable	Co-efficient	Assumption Sig
Mshak	3.287	0.010
Mdarb	3.396	0.162
Mrabh	1.926	0.028
Ijara	2.733	0.031
Salam	1.466	0.074
Istis	2.374	0.033
Relig	1.824**	0.008
Eduat	1.940	0.020

Source: Author's Computation Using SPSS 21.0
Indicates Level of significance at 1% (*), 5% (**), 10% (***) respectively.

Results of Chi-Square hypothesis test was presented in table 3 which is conducted to show the significant impact of the explanatory variables on small and Medium enterprises in Katsina state. The result indicates that Religion is the only explanatory variable that has significant impact on awareness and accessing Islamic Financial products with the Co-efficient of 1.824 which is statistically significant at 5%. Other variables are found not to exert statistical significance on the Islamic modes of financing Small and Medium Scale enterprises in Rural communities of Katsina state.

Table 4: Logit Regression Analysis

Independent Variables	Co-efficient	P-Values
Mshak	2.047***	0.007
Mdarb	-3.033**	0.003
Mrabh	-3.170	0.072
Ijara	-3.033	0.032
Salam	3.351	0.021

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Istis	0.249	0.323
Relig	0.016**	0.003
Eduat	0.308*	0.001
LR Chi²	-110.553	
No. of Obs	190	
Significance	1% (*), 5% (**), 10% (***).	

Author's computation using SPSS 21.0

Results of Logit Regression model is presented in table 4, which shows that Musharakah and Mudarabah as means of Islamic Modes of finance has Co-efficient of 2.047 and absolute 3.033 which are significant at 10% and 5% respectively. Religion and Level of education also has co-efficient of 0.016 and 0.308 which are statistically significant at 5% and 1% respectively. Other explanatory variables are found to have no statistically significant impact on small and medium scale enterprises in rural enterprises in Katsina state.

Discussion

Demographic characteristics of the respondents revealed that one hundred and thirty-one (131) are male representing 68.95% while fifty-nine (59) representing 31.05% are female. Educational Attainment of the respondents has fifty-four (54) respondents, sixty-one (61) has secondary school certificates, forty-three (43) have either NCE or Diploma, twenty-five (25) have first degrees representing 13.16% while seven (7) of the respondents have higher degrees which represents 3.68%. Next is the religion of the respondents, one hundred and fifty-six of the respondents representing 82.11% are Muslim faithful's, thirty-one are Christians representing 16.84% of the respondents while 2 of the respondents practices traditional religion.

Analysis on the level of awareness on Islamic modes of financing small and medium enterprises in Katsina state level of awareness of the respondents on the existing Islamic Modes of financing Micro and Small enterprises. 94 respondents are conversant with Musharakah as a mode of finance 49.47% while 96 of the respondents representing 50.53% of the respondents are not conversant with Musharakah as a mode of finance. On Mudarabah as a mode of finance, 78 are aware of its existence while 112 are not aware of its existence which represent 41.05% and 58.95% respectively. 49 respondents are conversant with Murabahah as a mode of finance which represent 25.79% while 141 of the respondents are not conversant with Murabahah as a mode of Islamic mode of finance. 47 of the respondents are aware of the existence of Ijara as a mode of finance while 143 are not conversant with Ijara as a mode of financing Small and Medium Scale enterprises

which represent 24.74% and 75.26% respectively. Result on awareness of Salam as a mode of finance indicates that 46 respondents are conversant with Salam while 144 are not conversant with Salam representing 24.21% and 75.79% of the respondents. 39 of the respondents are conversant with Istisna' as an Islamic mode of finance while 151 are not conversant with Istisna' which represent 20.53% and 79.47%.

Chi-Square hypothesis test which was conducted to show the significant impact of the explanatory variables on small and medium enterprises in Katsina state. The result indicates that Religion is the only explanatory variable that has significant impact on awareness and accessing Islamic Financial products with the Co-efficient of 1.824 which is statistically significant at 5%. This is in line with findings of Adedeji (2021), Other variables are found not to exert statistical significance on the Islamic modes of financing Small and Medium Scale enterprises in Rural communities of Katsina state.

Results of Logit Regression model shows that Musharakah and Mudarabah as means of Islamic Modes of finance has Co-efficient of 2.047 and absolute 3.033 which are significant at 10% and 5% respectively. Religion and Level of education also has co-efficient of 0.016 and 0.308 which are statistically significant at 5% and 1% respectively, this also supports the findings of Gbolagade et-al (2018) and Usman and Huda (2022). Other explanatory variables are found to have no statistically significant impact on small and medium scale enterprises in rural enterprises in Katsina state.

Conclusion

Findings from this study revealed that most of the rural entrepreneurs are not conversant with most of the Islamic modes of financing small and medium scale enterprises as a higher percentage of responses indicate non conversant with most of the Islamic modes of financing small and medium enterprises. The study also found that Religion is the only explanatory variable that has a statistically significant impact on awareness and accessing Islamic financial product, which means only respondents that practices Islam as their religion are accessing Islamic financial product in rural areas of Katsina state. Musharakah, Mudarabah, Religion and Level of Education are found to have statistically significant impact on small and medium scale enterprises in rural enterprises in Katsina state.

Based on the findings of this study, it is recommended that both policy makers and Islamic financial institutions should embark on a wider publicity and sensitization of business entrepreneurs on the benefits of Islamic financial products. This will enhance financial access and improve financial inclusion. Religion should also not be a barrier to accessing Islamic financial products and this stresses the need for patronage to Islamic financial products and services which is gaining global practicability as it gains a much appreciated international financial outlook that saves the financial systems from the fragile and uncertain conventional financial practices. Lastly, the need for availability and accessibility of other Islamic financial products, especially the non-profit and loss sharing financial

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

products that will increase the inclusion of both Muslim and non-Muslim faithfuls to reap the benefits of Islamic financial products

Acknowledgements: We acknowledge the support of Tertiary Education Trust Fund (TETFUND) that provided the finances needed for the successful conduct of this research with Reference Number (TETF/DR&D/CE/COE/KATSINA/IBR/2023/VOL.II).

References

Adedeji, S. A (2021) 'Islamic Financing effects on Small and Medium Enterprises Competitiveness' *Journal of Islamic Economic and Business Research, Vol. 1, No. 1 Pp 100 – 113.*

Ahmad, H. (2002). Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions. Islamic Economic Studies, 9(2), 27- 64.

Bennet, L. (1998) 'Combinig Social and Financial intermediation to reach the Poor: The Necessity and Danger' Starategic Issues in Microfinance. Routledge, Retrieved from reseachgate.net Doi no. 10.4324/9780429436574-6

Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. Journal of Banking and Finance, 30(11), 2931–2943. doi: 10.1016/j.jbankfin.2006.05.009

Copestake, J. Bhalotra, S. & Johnson, S. (2001) 'Assessing the impact of Micro credit: The Zambian Case' *Journal of Development Studies, Vol. 37, Issue 4, Pp 81 – 100.*

Gbolagade, L., Lekan, O. L and Braide, E. S (2018) 'Small and Medium Enterprises Bank Credit financing in Nigeria: Mudharaba Vs Usury' *International Journal of Advanced studies in Economics and Public Sector Management, Vol. 6, No. 2 Pp 63 – 73.*

Hamza, A. A & Gazali, H. M (2015) 'The Roles of Islamic Financing Towards the Successful of Islamic Micro enterprise: a study in labuan' *International Journal of Business, Economics and Law, Vol 8, Issue 1, 2289 -1` 552.*

Hanif, M., & Iqbal, a. (2010). Islamic Financing and Business Framework: A Survey., 15(4), 475–489. Retrieved from http://www.eurojournals.com/ejss_15_4.htm

Huda, A. N. (2012). The Development of Islamic Financing Scheme for SMEs in a Developing Country: The Indonesian Case'. *Procedia - Social and Behavioral Sciences, 52, 179–186*. doi: 10.1016/j.sbspro.2012.09.454

Muhammad, N. J, Olusegun K. L, and Sonny E. B (2018) 'Bank Financing for Small and Medium Enterprises in Nigeria: Mudharabah Vs Usury *Economica* Vol 14, No, 3.

Kuzilwa, J. A (2005) 'The role of credit for small business success A study of the national entrepreneurship development fund in Tanzania' *Journal of Entrepreneurship 14(12), 131 – 161.*

Lewis, M. K. and Algaoud, L.M. (2001), Islamic Banking, Cheltenham: Edward Elgar.

Muhammad, A. D., Maidoki, M. L. & Sani, U. B (2018) The Role of Islamic Social Finance in Empowering Youth and Women in Sokoto State of Nigeria. *Journal of Islamic Monetary Economics and Finance 3: 141–152.*

Mustafa, D., Baita, A. J. & Usman, A. Y. (2018) Impact analysis of Islamic finance on financial inclusion and economic growth in selected Muslim countries: lessons for Nigeria. International *Journal of Economics, Management and Accounting 26(2): 393–414.*

Mustapha, Z. Kunhibava, S. B & Muneeza, A. (2020) 'Legal and Shari'ah noncompliance risks in Nigerian Islamic Finance Industry: AReview of the literature' *International Journal of Law and Management, Vol. 2, No. 1 2020.*

Nurul''Alam, M. (2016) 'Musharaka financing to Rural-Based Small Entrepreneurs by Islamic Bank in Bangladesh: an Institutional Based Approach' *Journal of Islamic Economics, Banking and finance, Vol. 12, No. 3.*

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Okeke, V. O. S. & Grace, O. U, (2012) 'The political economy of the proposed Islamic banking and finance in Nigeria: prospects and challenges' *Kuwait Chapter of Arabian Journal of Business and Management Review 33(842): 1–22*

Oshodi, B. A. (2016) An integral approach to development economics: Islamic finance in an African context. Routledge.

Sa'adatu, B. A (2020) 'The influence of Islamic Financing on SMEs Performance in Nigeria International Journal of Research and Innovation in Social Science (IJRISS) Volume IV, Issue IX,

Sarker, M. A. A. (1999). Islamic business contracts, agency problem and the theory of the Islamic firm. *International Journal of Islamic Financial Services, 1(2), 12-28.*

Usman A, A & Huda, M, I (2022) 'Islamic Finance As An Alternative Source Of Financing Development In Nigeria' *Journal of Positive School Psychology, Vol. 6, No. 4, 8413 – 8423* http://journalppw.com.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]