

The Contribution of Islamic Finance for Small and Medium Enterprises in Srilanka

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ABSTRACT

Nowadays there are two types of financial institutions. Such as conventional financial institutions and Islamic financial institutions. Islamic finance can be simply defined as a financial operation that abides by Shariah (Islamic law). However, Islamic finance is generally understood as an interest-free system. This is growing up very fast not only in Sri Lanka but also worldwide. Islamic financial institutions now operate in over 70 countries. It was started at 1997 in Sri Lanka. There are many Islamic financial institutions in process in Sri Lanka and there is one fully fledged Islamic bank that is Amana Bank PLC and some conventional banks also have Islamic windows in the market. Islamic financial institutions offer saving and current accounts, Qurd (Loan), Ijara (Leasing), Wakkala (Agency), Mudharabah, Musharakah (Partnership), Diminishing musharakah, Murabaha etc. it's expect to improve business through these products and services.

Small and Medium Enterprises (SMEs) play an important role in any economy through generation of employments, contributing to the growth of GDP, embarking on innovations and stimulating of other economic activities. SME sector is said to be the backbone of all developed and developing nations. This study is, to finding how Islamic finance contributes for small and medium enterprises in Sri Lanka. Researcher identified the following objectives; to find what are the process done in small and medium enterprises, contribution of Islamic finance to those small and medium enterprises and the future activities to improve the small and medium enterprises sector.

To achieve these objectives researcher selected major three Islamic financial institutions which are mostly contributing to small and medium enterprises sector in Sri Lanka. Those are Amana Bank PLC, Muslim commercial bank - Islamic Unit, LOLC Al-Falaah. Researcher used to collect primary data through questionnaire, interviews and observations from professionals, employees and customers. Secondary data from annual reports, research papers, books, magazines and websites.

Islamic finance has contributed to small and medium enterprises sector in Sri Lanka and has stable growth for a very short period and also it has good prospects in future. Islamic finance has to develop its strategies to compete with other financial institutions.

Key words- Contribution of Islamic Finance, Small and Medium Enterprises, Entrepreneurship, Islamic Banking, Growth of Islamic finance in Sri Lanka, Economic Development of Sri Lanka.