

EVALUATING MSME FINANCING PRACTICES DURING COVID-19: EVIDENCE FROM ISLAMIC BANK ANNUAL REPORTS

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Submitted: 24 March 2023 - Last revised: 28 September 2023 - Accepted: 4 January 2023

Abstract

This study assesses the MSME financing practices of Islamic banks in Bangladesh during the COVID-19 pandemic. The study examines the annual reports of Bangladeshi Islamic banks between 2020 and 2021. This study found Islamic bank financing for cottage, small and medium enterprises (CMSME) through agent banking was effective during the pandemic. Banks also launched various programs, products, and schemes easily accessible to CMSMEs in the country, including special programs supporting women entrepreneurship and CMSMEs in rural areas. Overall, the performance of MSME financing of Islamic banks in the country was impressive and effective measured by the amounts disbursed to CMSMEs, the number of beneficiaries, new branches opened, and employment of bank staff to handle the enterprises' financial requests over the period. The findings can help the government and regulatory agencies, particularly Bangladesh Bank, during the revision of regulations to enhance CMSME financing by scheduled banks in the country.

Keywords: *micro small and medium enterprises (MSMEs), MSME financing, covid-19, islamic banks, documentary method, bangladesh.*

I. INTRODUCTION

A great catastrophe befell the world due to the outbreak of the virus known as COVID-19, traced to Wuhan, China, in December 2019, and quickly spreading to become a pandemic.¹ In fact, after the Great Depression of the 1930s, the COVID-19 pandemic has possibly dealt the world economy its heaviest hit.²

¹ Umar Habibu Umar and Mustapha Abubakar, "Maximizing Zakat Revenues in the COVID-19 Period: The Need for Creating Zakat Accounting Standards in OIC Member Countries," *International Journal of Zakat* 6, no. 2 (2021): 63-74, <https://doi.org/10.37706/ijaz.v6i2.289>.

² Pravakar Sahaoo and Ashwani, "COVID-19 and Indian Economy: Impact on Growth, Manufacturing, Trade and MSME Sector," *Global Business Review* 21, no. 5 (2020): 1159-1183, <https://doi.org/10.1177/0972150920945687>.

COVID-19 influenced the economic, social, and political activities of nearly all countries.³ COVID-19 has enormously and negatively affected the global economy.⁴ Umar state, however, that the harm varies from nation to nation. It also severely affects the economic sector.⁵ Stopping the spread of COVID-19 infections and addressing the pandemic's economic and social impacts became urgent global concerns.⁶

Following the proclamation of COVID-19 as a pandemic, governments were forced to implement several measures to curb the spread of the disease, including travel bans, social isolation, and the closing of several businesses.⁷ The lockdown measures to curtail the spread of the COVID-19 pandemic posed a threat to the continuity of various innovative startups.⁸ Also, these measures resulted in layoffs and a sharp rise in unemployment, which consequently caused the rate of global poverty to rise sharply, leading even advanced countries struggled to find sustainable solutions.⁹

The MSME sector has been the most impacted economic sector by COVID-19 globally because a majority of businesses in the sector failed due to the precautionary measures adopted to reduce the spread of the virus.¹⁰ MSMEs were thus severely impacted by the pandemic and found themselves in a financial crisis because of a significant reduction in the demand for their products and operations.¹¹ These businesses are more susceptible to adverse

³ Paulus Israwan Setyoko and Denok Kurniasih, "Impact of the Covid 19 Pandemic on Small and Medium Enterprises (SMEs) Performance: A Qualitative Study in Indonesia," *Journal of Industrial Engineering & Management Research* 3, no. 3 (2022): 315-324, <https://doi.org/10.7777/jiemar.v3i3.406>.

⁴ Mohsin Shafi, Junrong Liu and Wenju Ren, "Impact of COVID-19 Pandemic on Micro, Small, and Medium-sized Enterprises Operating in Pakistan," *Research in Globalization*, 2 (2020): 100018, <https://doi.org/10.1016/j.resglo.2020.100018>.

⁵ Fitriani and Tuti Angraini, "The Role of Islamic Banks in Improving the Economy through Microfinance during the Covid-19 Pandemic," *Journal of Indonesian Management (JIM)* 2, no. 3 (2022): 935-940, <https://doi.org/10.53697/jim.v2i3.958>.

⁶ Umar Habibu Umar, Abubakar Jamilu Baita, Md Harashid Bin Haron, and Sadanu Hamza Kabiru, "The Potential of Islamic Social Finance to Alleviate Poverty in the Era of COVID-19: The Moderating Effect of Ethical Orientation," *International Journal of Islamic and Middle Eastern Finance and Management* 15, no. 2 (2022): 255-270.

⁷ *Ibid.*

⁸ Andreas Kuckertz, Leif Brändle, Anja Gaudig, Sebastian Hinderer, Carlos Arturo Morales Reyes, Alicia Prochotta, Kathrin M. Steinbrink, and Elisabeth SC Berger, "Startups in Times of Crisis—A Rapid Response to the COVID-19 Pandemic," *Journal of Business Venturing Insights* Vol. 13, (2020): e00169, <https://doi.org/10.1016/j.jbvi.2020.e00169>.

⁹ Umar Habibu Umar, Mohd Hairul Azrin Besar, and Muhamad Abduh, "Compatibility of the CSR Practices of Islamic Banks with the United Nations SDGs Amidst COVID-19: A Documentary Evidence," *International Journal of Ethics and Systems* 39, no. 3 (2023): 629-647, <http://dx.doi.org/10.1108/IJOES-12-2021-0221>.

¹⁰ *Ibid.*

¹¹ Sumanjeet Singh, Pankaj Chamola, Vimal Kumar, Pratima Verma, and Neha Makkar, "Explaining the Revival Strategies of Indian MSMEs to Mitigate the Effects of COVID-19 Outbreak," *Benchmarking: An International Journal* 30, no. 1 (2023): 121-148, <https://doi.org/10.1108/BIJ-08-2021-0497>.

shocks to their supply chain, labour supply, and final demand for goods and services than their larger counterparts.¹² Besides, during the pandemic, MSME revenues declined, putting them in need to solicit financial assistance.¹³ According to Huda¹⁴ and Disli,¹⁵ a key problem of MSMEs is the limited access to financing. In fact, inaccessibility to financing has always been a formidable obstacle for MSMEs even before COVID-19 in many countries. For example, according to the International Finance Group of the World Bank, just two percent of Saudi Arabia's MSMEs have access to financing.¹⁶

Moreover, MSMEs are often more productive than large companies but are held back from development because of the inability or unwillingness of the financial markets and other organisations to provide them with cash and other non-financial assistance. Similarly, as a result of perceived risks, high transaction costs, and other issues, many financial institutions in developing economies are hesitant to support SMEs.¹⁷ Also, MSMEs encounter more challenges than their bigger counterparts in obtaining external financing because of their informationally opaque attributes. Most empirical findings during the pandemic indicate that COVID-19 has severely affected MSMEs as revealed by Roy,¹⁸ Sahoo,¹⁹ Shafiu,²⁰ Wijaya,²¹ and Uyon.²² . Therefore, finding

¹² Asami Takeda, Takeda Hoa T. Truong and Tetsushi Sonobe, "The Impacts of the COVID-19 Pandemic on Micro, Small, and Medium Enterprises in Asia and Their Digitalization Responses," *Journal of Asian Economics* 82 (2022): 101533, <https://doi.org/10.1016/j.asieco.2022.101533>.

¹³ *Ibid.*

¹⁴ Aulia Nurul Huda, "The Development of Islamic Financing Scheme for SMEs in a Developing Country: The Indonesian Case," *Procedia-social and behavioral sciences* 52 (2012): 179-186, <https://doi.org/10.1016/j.sbspro.2012.09.454>.

¹⁵ Mustafa Disli, Ahmet F. Aysan, and Omneya Abdelsalam, "Favoring the Small and the Plenty: Islamic Banking for MSMEs," *Economic Systems* 47, no. 1 (2023): 101051, <https://doi.org/10.1016/j.ecosys.2022.101051>.

¹⁶ Adewale Abideen Adeyemi, Ali Saleem al-Jaafreh and M. Afzal Osman, "Islamic Microfinance and MSMEs Development in Saudi Arabia: A Qualitative Inquiry," *International Journal of Education and Research* 3, no. 9 (2015): 59-72.

¹⁷ Reuben Ufot Etuk, Grace Reuben Etuk and Baghebo Michael, "Small and Medium Scale enterprises (SMEs) and Nigeria's Economic Development," *Mediterranean Journal of Social Sciences* 5, no. 7 (2014): 656, <http://dx.doi.org/10.5901/mjss.2014.v5n7p656>.

¹⁸ Arundhati Roy, B. C. M. Patnaik, and Ipseeta Satpathy, "Impact of Covid-19 Crisis on Indian MSME Sector: A Study on Remedial Measures," *Eurasian Chemical Communications* 2, no. 9 (2020): 991-1000, <https://doi.org/10.22034/ecc.2020.114672>.

¹⁹ *Ibid.*

²⁰ Shafi, Liu, and Ren, "Impact of COVID-19 Pandemic."

²¹ Oscarius Yudhi Ari Wijaya, "The Impact of COVID-19 on Micro, Small and Medium Enterprises (MSMEs) in East Java Province, Indonesia and Strategies for Overcoming: Ad Interim," *International Research Association for Talent Development and Excellence* 12 (2020): 3454-3465.

²² Arifatul Uyun, "Role of Islamic Banking and Existence of MSMEs in Indonesia After Covid-19 Pandemic," *Journal of Economic Sharia Law and Business Studies* 1, no. 1 (2021): 57-69, <https://doi.org/10.55120/ijeslabs.v1i1.476>.

long-lasting solutions to the pandemic's effects has garnered attention from practitioners and academics worldwide according to previous studies including Umar.²³ Hence, many governments began providing financial and other types of support to MSMEs and their employees immediately after the COVID-19 pandemic broke out.²⁴ However, such relief packages were not enough to cover the losses experienced by MSME owners in India. This was not only a problem in India but in nearly all countries across the globe.

On the other hand, Islamic banks can provide solutions to MSMEs' lack of access to financing Huda²⁵. This is because Islamic banking practices have become more popular as a viable alternative to traditional (conventional) banking, particularly since the 2008 global financial crisis.²⁶ Islamic banks are capable of providing microfinance to support the operations of MSMEs, effectively reducing poverty in Muslim nations.²⁷ Islamic microfinance has been accepted and practiced in Islamic and non-Muslim countries. During the COVID-19 pandemic, Islamic banks played a vital role in the recovery of the Indonesian economy.²⁸ The Islamic banking institutions' profit-and-loss sharing principle is a benefit and convenience that helps grow businesses and preserve the continuity of MSMEs in society.²⁹

Moreover, various studies were carried out in different disciplines in the struggle to find sustainable solutions to the pandemic's health, social and economic effects. However, current studies have found only a few empirical studies. For example, Ernawati, Disli, and Habriyanto evaluated how Islamic financing influenced the impact of MSME performance during the COVID-19 pandemic. These studies administered questionnaires and/or interviews to collect data, which could not be utilised to provide adequate explanations of programs/products and funds accessed by MSMEs.³⁰

²³ Umar Habibu Umar, "Adapting the Al Rajhi Waqf Model to Mitigate the Impact of COVID-19 on the Ummah: A Lesson to Muslim Philanthropists," In *COVID-19 and Islamic Social Finance*, edited by M K Hassan, Aishath Muneeza, and A M Sarea, (2021): 133-147. Routledge, 2021., 1st ed. Routledge. <https://doi.org/10.4324/9781003121718-12>.

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ *Ibid.*

²⁸ Ernawati, Tajuddin Tajuddin, and Mansyur Asri, "Micro, Small and Medium Enterprises Financing of Islamic Banking in Indonesia During the Covid-19 Pandemic," *Ibtijaz: Islamic Economics, Finance, and Banking* 2, no. 2 (2021): 20-32.

²⁹ *Ibid.*

³⁰ Ernawati, Tajuddin, and Asri, "Micro, Small and Medium Enterprises.," Disli, Aysan, and Abdelsalam, "Favoring the Small and the Plenty.," Budi Trianto Habriyanto, Nik Hadiyan Nik Azman, Busriadi, Evan Hamzah Muchtar, and Elida Elfi Barus, "Does The Component of Islamic Financial Literacy Affect on MSMEs Decision in Islamic Banking Financing: Creative Economy Investigate," *International Journal of Islamic Business and Economics* 6, no. 2 (2022): 138-147. <https://doi.org/10.28918/ijibec.v6i2.6090>.

Based on the above background, this study seeks to assess the MSME financing practices of Islamic banks in Bangladesh during COVID-19 between 2020 and 2021. This study focuses on Bangladesh because of the historical use of microfinance to alleviate poverty in the country. The effective use of microfinance in reducing poverty and empowering women has received widespread attention thanks to the instance of the Grameen Bank in Bangladesh.³¹ The contribution of Dr. Muhammad Yunus through his bank known as “Grameen Bank” toward propagating the idea of microfinance which tremendously contributed to poverty alleviation, has been widely acknowledged, although credit extended has been interest based. Consequently, Dr. Yunus received the Nobel Peace Prize because his banks provided microcredit to about seven million beneficiaries, many of whom lived in rural areas.³² Additionally, in Bangladesh, directives are issued periodically to all commercial banks in order to enhance CMSME banking practices in the country. The Central Bank of Bangladesh, Bangladesh Bank, issued at least two directives during COVID-19 (2020-2021). Specifically, in line with Bangladesh Bank SMESPD Circular No. 02, issued September 5, 2020, all scheduled banks were directed to increase their SME financing by 1% every year with the goal of disbursing 50% by 2030.³³ The directive also stated that, CMSME financing should reach 25% of scheduled banks’ total net outstanding investments by 2024.³⁴

This study contributes to the literature in at least five ways. First, the findings will be useful to the Bangladesh Government and its regulators, particularly Bangladesh Bank, which can help them provide subsequent directives for improving CMSME banking in the country. Second, CMSME owners will benefit from this study because it illustrates various products/schemes available to them, particularly those that have never accessed such funds. Third, it can serve as a guide to banks to improve their lending to CMSMEs to ensure that the targets set by Bangladesh Bank by 2024 and 2030. Fourth, from a methodological point of view, this study applies a unique approach (a documentary method) rarely used in accounting and finance research. The authors found no prior studies that utilised this method to assess CMSME financing to their best ability as they applied interviews and/or administered questionnaires as earlier indicated. The documentary method

³¹ *Ibid.*

³² Muhammad Yunus, “The Nobel Peace Prize 2006-Nobel Lecture.” *Law and Business Review of the Americas* 13, no. 2 (2007): 267.

³³ Shahjalal Islamic Bank Limited (SJIBL). 2020. “Annual Report 2020.” https://doi.org/https://sjibld.com/annualreport/SJIBL_AR-20.pdf.

³⁴ First Security Islamic Bank (FSIBL). 2020. “Annual Report 2020.” https://doi.org/https://fsibld.com/fsibl_document/Annual_Report_2020.pdf.

enables the authors to detail the products/schemes, beneficiaries, and the amount allocated and disbursed to MSMEs. This could not be provided when other methods like interviews and questionnaires are applied. Fifth, although the study is limited to Bangladesh, the findings could be helpful to the governments and central banks of other developing countries, particularly those with Islamic banking. MSME banking practices have not been given adequate attention in many developing countries. Therefore, they can refer to this study in promulgating regulations and policies to overcome the financial obstacles that MSMEs face in their countries.

The remainder of the study is organised into four sections. Section two presents the literature review, which details the pandemic's consequences, the benefits of sustaining the operations of MSMEs and financing MSMEs through Islamic banking and finance. Section three shows the methodology, which reveals the sample and data of the study, data collection method, and method of data analysis. Research findings are presented in section four. Section five presents concluding remarks.

II. LITERATURE REVIEW

2.1. Consequences of COVID-19 for MSMEs

Immediately after the emergence of the COVID-19 pandemic, its impact on various economic activities and sectors became a common issue of discussion among policymakers, regulators, and academics around the globe. The difficulties experienced by MSMEs due to the spread of COVID-19 significantly influenced community welfare, particularly for individuals who work in the informal sector.³⁵ Therefore, many studies examined the effects of COVID-19 on businesses and economic growth. For example, a study by Roy, Patnaik, and Satpathy revealed that manufacturers of essential and non-essential goods during the pandemic lost nearly 50% of their production in India.³⁶ Sahoo and Ashwani examined how the COVID-19 pandemic influenced the Indian economy and the growth of manufacturing, MSMEs, and the trade sector in particular. The study revealed that COVID-19 has severely affected these sectors.³⁷

Moreover, Shafi, Liu and Ren used a sample of 184 MSMEs to investigate the effects of the COVID-19 pandemic on MSMEs in Pakistan.³⁸ The

³⁵ Paulus Israwan Setyoko and Denok Kurniasih. "Impact of the covid 19 pandemic on small and medium enterprises (sme)s performance: A qualitative study in Indonesia." *Journal of Industrial Engineering & Management Research* 3, no. 3 (2022): 315-324.

³⁶ Roy, Patnaik, and Satpathy, "Impact of Covid-19 Crisis on Indian MSME Sector."

³⁷ Sahoo and Ashwani, "COVID-19 and Indian Economy."

³⁸ Shafi, Liu and Ren, "Impact of COVID-19 Pandemic."

findings indicate that almost all MSMEs faced serious challenges, including decreased customer purchases, reduced revenues and profits, and disrupted financial supply chains. Over 83% of these MSMEs had not prepared or planned to manage the crisis. Also, over two-thirds of them could remain a going concern when the lockdown period exceeds two months. Wijaya used an interview method to explore how COVID-19 affected MSMEs in East Java Province, Indonesia. The study showed that the emergence of COVID-19 has significantly reduced the revenue of MSMEs by about 80%.³⁹ Additionally, using the descriptive-analytical method, Uyun found that the emergence of COVID-19 has negatively affected the development of MSMEs as many of their employees lost their jobs in Indonesia.⁴⁰ Takeda, Truong and Sonobe utilised MSMEs online survey data generated from eight developing countries in South, Northeast and Southeast Asia to investigate the effects of COVID-19 on MSMEs. It was found that MSMEs in the subject countries encountered a severe reduction in sales revenues and employment a few months after COVID-19 was declared a pandemic.⁴¹

2.2. Benefits of Sustaining Micro, Small and Medium Enterprises (MSMEs)

Several studies indicate the importance of sustaining MSMEs in both developed and developing economies because of the contribution of MSMEs to economic growth and development. They constitute a greater proportion of businesses in various countries, significantly contributing to employment and economic growth as documented by Umar, Besar, and Abduh.⁴² A review of the literature by Agyapong indicates that MSMEs contribute to creating jobs, increasing tax revenues, generating more income from exports and imports, easing the distribution of goods, and developing human resources.⁴³ Similarly, the SME sector could be advantageous to any government as it can increase a nation's GDP, provide tax and other forms of revenue, and help to improve its stability.⁴⁴ Also, by applying Schumpeter's economic development theory, Prasetyo found that the unemployment rate tends to decline when MSMEs

³⁹ Wijaya, "The Impact of COVID-19."

⁴⁰ Uyun, "Role of Islamic Banking."

⁴¹ Takeda, Truong and Sonobe, "The Impacts of the COVID-19."

⁴² Umar, Besar, and Abduh, "Compatibility of the CSR Practices."

⁴³ Daniel Agyapong, "Micro, Small and Medium Enterprises' Activities, Income Level and Poverty Reduction in Ghana – A Synthesis of Related Literature," *International Journal of Business and Management* 5, no. 12 (2010). <https://doi.org/10.5539/ijbm.v5n12p196>.

⁴⁴ Etuk, Etuk, and Michael. "Small and Medium Scale Enterprises."

grow.⁴⁵ This implies that the growth of MSMEs provides more employment opportunities. Specifically, in South Africa, SMEs constitute over 91% of all formal enterprises, contributing between 51% and 57% of the country's GDP and accounting for nearly 60% of all jobs.⁴⁶ The MSME sector is the engine driving the Indian economy and provides 110 million jobs and accounts for 48% of the country's exports.⁴⁷ Thus, considering the contributions of MSMEs to the reduction in unemployment and the increase in economic growth and development, the importance of their sustainability is very profound.

2.3. Financing MSMEs through Islamic Banking and Finance

After the 2008 global financial crisis, the importance of Islamic banking and finance in sustaining MSMEs has been widely acknowledged. Empirically, a study by the International Finance Corporation disclosed that Islamic financing given to MSMEs has a funding potential of \$342.2 to 456.3 million and depository potential which ranged between \$402.6 and \$536.9 million in Kyrgyz.⁴⁸ In Indonesia, Huda⁴⁹ used data from the National Agency of Statistics and Bank Indonesia to find out whether Islamic finance could solve the financial challenges facing SMEs. The study revealed that Islamic finance can be utilised to provide solutions to SMEs' inaccessibility of adequate financing. Ernawati et al. assessed the factors that influence the allocation of Islamic banks' funds to MSMEs during COVID-19 in Indonesia. The findings suggest that an increase in non-performing loans reduces the allocation of funds.⁵⁰ On the other hand, higher profitability leads to an incremental increase in such funds. Further, asset growth is a factor that significantly affects MSME financing by Islamic banks.

Moreover, Disli et al. explored the lending behaviour of Islamic and conventional banks to MSMEs in Turkey. The study discovered that Islamic banks provide more MSMEs financing and earn more income from servicing MSMEs than their conventional counterparts.⁵¹ A study carried out by Habriyanto et al. discovered that awareness of Islamic finance and financial skills in Islamic banking are essential factors that affect the decision to access

⁴⁵ P. Eko Prasetyo, "The Role of MSME on Unemployment in Indonesia." *Turkish Journal of Computer and Mathematics Education* 12, no. 13 (2021): 2519-2525, <https://doi.org/10.17762/turcomat.v12i13.8944>.

⁴⁶ Mukole Kongolo, "Job Creation Versus Job Shedding and the Role of SMEs in Economic Development," *African Journal of Business Management* 4, no. 11 (2010): 2288.

⁴⁷ Singh, Chamola, Kumar, Verma, and Makkar, "Explaining the Revival Strategies."

⁴⁸ International Finance Corporation, "Islamic Banking and Finance: Opportunities Across Micro, Small and Medium Enterprises in the Kyrgyz Republic," 1 February 2016, <https://policycommons.net/artifacts/1291732/islamic-banking-and-finance/1894863/>.

⁴⁹ *Ibid.*

⁵⁰ Ernawati, Tajuddin, and Asri, "Micro, Small and Medium Enterprises."

⁵¹ Disli, Aysan, and Abdelsalam, "Favoring the Small and the Plenty."

Islamic bank financing.⁵² Also, while the decision to utilise Islamic bank financing does not significantly influence firm performance, the Islamic finance framework significantly improves performance.

III. METHODOLOGY

3.1. Sample and Data of the Study

The study utilised a sample of full-fledged Islamic banks in Bangladesh whose annual reports for the 2020 and 2021 financial years were available. This study found seven Islamic banks that are fully-shari'á compliant banks in Bangladesh. Table 1 shows the banks used as a sample of the study.

Table 1.
Sample of the study

S/N	Bank Name	Code
1	Al-Arafah Islami Bank Limited	AIBL
2	Exim Bank Limited	EBL
3	First Security Islami Bank Limited	FSIBL
4	Islami Bank Bangladesh Limited	IBBL
5	ICB Islamic Bank Limited	ICBIBL
6	Social Islami Bank Limited	SIBL
7	Shahjalal Islami Bank Limited	SJIBL

The study's data were generated from the annual reports of the sampled seven Islamic banks over two years (2020-2021). These reports can be regarded as reliable and authentic sources of information about the operations and activities of corporate organisations as these banks were found to have adequately disclosed information regarding MSME banking. Scoot suggested four criteria used to validate any document for research: authenticity, credibility, representativeness and meaning.⁵³ Umar et al used these criteria to validate the use of annual reports as documentary evidence in research:⁵⁴

- a. Annual reports are the official publications of corporate bodies that can be accessed from their websites, which indicates their authenticity;
- b. Annual reports are credible because they are required to be certified by licensed independent auditors who certify that the reports are free of significant errors, omissions, and misstatements;

⁵² Habriyanto, Azman, Busriadi, Muchtar, and Barus, "Does the Component of Islamic Financial Literacy?"

⁵³ John Scoot, *A Matter of Record: Documentary Sources in Social Research* (Cambridge: Polity Press, 1990).

⁵⁴ Umar, Besar, and Abduh, "Compatibility of the CSR Practices."

- c. The representativeness of annual reports is guaranteed because both financial and non-financial information is adequately disclosed in them to enable various stakeholders to assess the financial condition of the banks; and
- d. The information presented in the annual reports has meaning because of its understandability (by one of the qualities of accounting information) with an additional explanation of essential issues.

3.2. Data Collection Method

This study is qualitative in nature, as it applied a documentary research method of data collection. A methodical process known as “document analysis” is used to examine or assess documents, both printed and electronic (computer-based and internet-transmitted) materials, that comprise text and images that have been captured without the involvement of a researcher.⁵⁵ This research approach is equally beneficial and, at times even more economical, than social surveys, in-depth interviews, and participant observation.⁵⁶ A documentary technique is now commonly employed in the fields of accounting and finance, as mentioned by Richards and Safari,⁵⁷ Umar et al. and Umar et al.. Specifically, a study by Uma et al. applied this method to assess whether the CSR practices of Islamic banks are compatible with the sustainable development goals of the United Nations.⁵⁸ Similarly, the current study extracted the data from the annual reports of Islamic banks in Bangladesh between 2020 and 2021.

3.3. Method of Data Analysis

This research utilised thematic analysis, a common data analysis method in a qualitative study as used by prior studies such as Mohd Thas Thaker,⁵⁹ Umar, Umar et al. and Umar and Kurawa.⁶⁰ In the thematic analysis approach, themes within a data set are identified, analysed, organised, described and

⁵⁵ Glenn A. Bowen, “Document Analysis as a Qualitative Research Method,” *Qualitative Research Journal* 9, no. 2 (2009): 27-40, <https://doi.org/10.3316/QRJ0902027>.

⁵⁶ Jashim Uddin Ahmed, “Documentary Research Method: New dimensions,” *Indus Journal of Management & Social Sciences* 4, no. 1 (2010): 1-14.

⁵⁷ Daniel W. Richards and Maryam Safari, “Disclosure Effectiveness in the Financial Planning Industry,” *Qualitative Research in Financial Markets* 13, no. 5, (2021): 672–91. <https://doi.org/10.1108/QRFM-04-2020-0060>.

⁵⁸ Umar, Besar, and Abduh, “Compatibility of the CSR Practices.”

⁵⁹ Mohd Thas Thaker and Mohamed Asmy Bin, “A Qualitative Inquiry into Cash Waqf Model as a Source of Financing for Micro Enterprises,” *ISRA International Journal of Islamic Finance* 10, no. 1 (2018): 19–35. <https://doi.org/10.1108/IJIF-07-2017-0013>.

⁶⁰ Umar Habibu Umar and Junaidu Muhammad Kurawa, “Exploring the Reasons for the Low Level of Awareness and Knowledge of AAOIFI Accounting Standards in Nigeria,” *Journal of Islamic Finance* 10, no. 1(2021): 1–14.

reported⁶¹. The procedure for carrying out a thematic analysis is presented by displaying an auditable decision trail directing textual data interpretation and representation⁶².

IV. RESEARCH FINDINGS

This study found six key themes from the data analysis, as shown below in Table 2.

Table 2.
Categorical Themes and Designed Questions

Categorical themes	Research questions
Agent banking and financial inclusion in Bangladesh.	Do Islamic bank agent banking practices improve MSME financial inclusion in Bangladesh?
Effectiveness of Islamic bank MSME financing practices in Bangladesh.	Are Islamic bank MSME financing practices effective in Bangladesh?
Targeting rural areas in Bangladesh.	Do people in rural areas benefit from Islamic bank MSME financing in Bangladesh?
Programs/products available for MSME owners in Bangladesh.	What are the programs/products available to MSME owners in Bangladesh?
prioritising female entrepreneurs in Bangladesh.	Do Islamic banks give priority to female entrepreneurs in Bangladesh?
Performance of Islamic bank MSME financing practices in Bangladesh.	What is the performance of Islamic bank MSME financing practices during COVID-19 in Bangladesh?

4.1. Agent Banking and Financial Inclusion in Bangladesh

Agent banking is an effective instrument for improving access to formal financial products and financial services for MSME owners in rural and urban areas. In the Bangladesh context, the primary goal of agent banking is to increase financial inclusion by providing technology-driven banking solutions to Bangladesh's unbanked population in rural and remote areas. There is clear evidence in the annual reports that all the banks practice agent banking in order to improve the level of financial inclusion in the country. Therefore, disclosure of these banks' achievements in agent banking is clearly and properly presented in their annual reports.

However, only five of the seven sampled Islamic banks disclosed adequate details of their agent banking. In providing banking services to the unbanked

⁶¹ Virginia Braun and Victoria Clarke, "Using Thematic Analysis in Psychology," *Qualitative Research in Psychology* 3, no. 2 (2006): 77-101, <https://doi.org/10.1191/1478088706qp0630a>.

⁶² Lorelli S. Nowell, Jill M. Norris, Deborah E. White, and Nancy J. Moules, "Thematic Analysis: Striving to Meet the Trustworthiness Criteria," *International Journal of Qualitative Methods* 16, no. 1 (2017): 1-13, <https://doi.org/10.1177/1609406917733847>.

people, Al Arafah Islami Bank Limited (AIBL) Bank opened 400 Agent Banking facilities through 264 unbanked of December 2020 and as of December 2020, there were 325,582 total agent banking accounts representing 14.42% of the total bank's accounts (AIBL). About 48 districts and 185 upazillas have already been covered (AIBL). The bank also built 571 agent banking locations through 397 agents as of December 2021 and there were 502,855 total accounts with agent banking and under 55 Districts covering 227 upazillas as of December 2021 (AIBL). Exim Bank had 130 branches and serves the corporate and large companies, CMSME and agricultural sectors throughout the country (EBL). At the end of 2021, EXIM Bank was dedicated to expanding the CMSME sector as the pioneer of the private sector, maintaining them alongside the government sector with its 131 branches around the country.⁶³

Moreover, Islami Bank Bangladesh Limited (IBBL) plays a vital role in spreading financial inclusion throughout the nation by supporting the overall sustainable development of the vast majority of the population (IBBL). It opened 53,325 family accounts, 226,675 student accounts, 1,690 mohor accounts, and 587 cash waqf accounts in 2020 to accommodate a significant number of unbanked individuals inside its banking network (IBBL). Through its Rural Development Scheme (RDS), IBBL reached 25,842 villages with 1,323,705 members using 33,619 centres (IBBL). At the end of 2021, through this program, 1,469,362 participants were reached in 28,921 villages across the country (IBBL). Similarly, Social Islami Bank Limited (SIBL) agent banking gives access to banking services and products to a large number of individuals in rural locations (SIBL, 2021).⁶⁴ In 2020, SIBL employed 108 social officers at 70 branches to provide Islamic microfinance products (SIBL). Additionally, through agent banking, Shahjalal Islami Bank Limited (SJIBL) provides customers with full-service banking at their doorsteps, facilitating the convenient channelling of remittances, deposits, and cash withdrawals and supporting small investments for CSMEs and farmers at an affordable cost (SJIBL). SJIBL operates 53 agent banking locations providing agent banking services and opened 4,512 accounts in various categories and by the end of December 2020, the total amount deposited stood at Tk. 105.91 million (SJIBL). It also opened its 50th agent banking outlet as part of a financial inclusion initiative in Mohishkata Bazar in Amtali Upazilla in the Borguna District in 2021 (SJIBL).⁶⁵

⁶³ Exim Bank (EBL), "Annual Report 2020." <https://doi.org/https://www.eximbankbd.com/report/ar2020.pdf>.

⁶⁴ Social Islami Bank Limited (SIBL). 2021. "Annual Report 2021." https://www.siblbld.com/assets/reports/annual/SIBL_Annual_Report_2021.pdf.

⁶⁵ Shahjalal Islami Bank Limited (SJIBL). "Annual Report 2021.", (2021): 44. https://sjiblbld.com/annualreport/SJIBL_Annual_Report_2021_3.pdf.

Briefly, the findings indicate the struggles of Islamic banks toward improving financial inclusion in the country. A study by Umar (2020) found that the financial inclusion of businesses can enhance their bookkeeping practices, decrease bad debt, minimise risks of cash transactions, increase sales, improve business zakat, and reduce unemployment.

4.2. Effectiveness of Islamic Bank MSME Financing Practices in Bangladesh

Bangladesh has been recognised as a country with effective policies and regulations for MSME banking. According to Bangladesh Bank SMESPD Circular No. 02, dated September 5, 2020, to all scheduled banks, the disbursement of SME loans/investments were required to increase by 1% annually and climb to 50% of the entire disbursement target by 2030 (SJIBL). Also, Bangladesh Bank mandated commercial banks in the country to increase their net outstanding investments in the CMSME sector to 25% by 2024.⁶⁶ Consequently, all Islamic banks are very active in financing MSMEs operations throughout the country. However, only six banks disclosed the details of their performance in terms of the number of CMSME clients, the number of branches and the amount disbursed over the sample period.

As for the disclosure in the annual report, Al Arafah Bank focuses on investment in SMEs and the retail sector in line with the policies and guidelines of Bangladesh Bank. In 2020, AIBL achieved above 100.89% of its target in this area by investing in three major categories of enterprises, industrial, trade, and services (AIBL). Most of the products offered by Exim banks target CMSME, including Cottage investment, SME investment, micro-investment, and agri-investment, through various Islamic contracts like *murabaha*, *murabaha* post import, *ijara bil baiya*, *bai-muajja*, *wazirat bil wakala*, *lease/ijara*, *Bai-as-Sarf*, *quard* and *musharaka* documentary bill, among others (EBL). First Security Islami Bank Limited (FISBL) commenced SME banking in 2006 reaching 190 SME branches, 211 employees, and 6,169 SME clients between January and December 2020 and the total outstanding loans to CMSMEs was Tak 45,023.00 million at the end of the year (FSIBL, 2020). By December 31, 2021, FISBL had 196 SME branches with 217 employees, and BDT 44,362.00 million allocated to CMSMEs from January to December 2021 (FSIBL). Also, it periodically engages in various CMSME-related workshops, training sessions, SME fairs, and Female Entrepreneur Fairs to support CMSMEs in the country (FSIBL).

⁶⁶ Sahoo and Ashwani, "COVID-19 and Indian Economy."

Moreover, Social Islami Bank Limited (SIBL) has been successful in SME investment in order to tap into the potential of the “missing middle”, which is not adequately served by the corporate banking sector (SIBL). During the COVID-19 pandemic, SJIBL began various programs supporting MSMEs which included nine emerging clusters, garments and accessories, medical and surgical equipment, light engineering, chatal/mill, poultry feed, karuponno (traditional Bangladeshi textiles, hand/power looms and tant shilpo), stone crusher, dried fish, and shoes, with a view to improving their performance (SJIBL). SJIBL received the first prize from Bangladesh Bank for its exceptional contribution to financing the operations of CMSMEs (SJIBL).

In a nutshell, the above findings indicate that Islamic banks in Bangladesh are very effective in discharging MSME banking through which many CMSMEs access funds for their operations. Additionally, although Islamic banks were one of many victims of the pandemic, they remained committed to CMSME financing to the extent that some launched new products/schemes to support such enterprises in difficult times.

4.3. Targeting Rural Areas in Bangladesh

In developing countries, most people in rural areas are excluded from the formal financial system. Hence, governments and their relevant regulatory agencies (particularly central banks) provide regulations ensuring individuals and MSMEs in these areas can access formal financial products and services. Based on the information disclosed in the annual reports, all seven banks have used various strategies and programs/schemes to improve the financial rate of people living in rural areas. Nonetheless, only five Islamic banks adequately disclose how they enable people in such areas to access formal financial services.

During the COVID-19 pandemic period, Al Arafah Bank launched Al Arafah Rural Development Programs (ARDP) in order to provide employment and eradicate poverty in rural areas by supporting CMSME activities and during the period, approved loans under the scheme ranged from Tak 7.00 lac (unsecured) to Tak 50.00 lac (AIBL). This program supports the socio-economic growth of farmers, labourers, fishermen, micro businessmen, and small business owners by operating on the principles of group and sanity goals. Similarly, IBBL has been running a collateral-free micro-investment program under the Rural Development Scheme (RDS) allowing rural farmers to attain improvement in financial inclusion, financial empowerment, self-employment and income, alleviating the impoverishment of the rural population (IBBL). This program has covered roughly 13.23 million people nationwide, with

women making up most recipients (IBBL).⁶⁷ Moreover, there are 282 branches of RDS and 24 branches of the Urban Poor Development Scheme (UPDS), making a total of 306 branches that serve 64 districts, 490 upazilas and 25,842 villages across the country (IBBL). In 2021, IBBL had 295 branches that operate RDS activities within 64 districts of Bangladesh. According to its motto, “Service for everyone”, the mission of First Security Islami Bank Limited is to advance society by empowering marginalised and rural women via the financing of sustainable CSMEs (FISBL). Moreover, ICB Islamic Bank Limited (ICBIBL) performs an essential role in providing SME financing in rural and semi-rural areas in Bangladesh (ICBIBL, 2020).⁶⁸ SJIBL has opened many branches in rural areas which support rural development in various ways, such as collecting bills, encouraging savings and financing CMSMEs (SJIBL).

To sum up, the findings indicate that Islamic banks in Bangladesh give special attention to rural areas by opening branches and providing exclusive products, schemes, or programs for individuals and MSMEs in rural areas.

4.4. Programs/Products Available to MSME Owners in Bangladesh

Evidence from the information disclosed in the annual reports of Islamic banks in Bangladesh shows that they create various programs/products catering specifically to the needs of diverse MSME owners. Therefore, each bank has different programs/products with which it finances MSMEs in Bangladesh. In this case, we found five banks adequately disclose such programs, products, or schemes they have launched to finance the operations of MSMEs in the country.

Al Arafah Islamic developed a product named “Al-Arafah Rural Development Program (ARDP)”, which consists of investment schemes that are easy to obtain without collateral/security, such as Bai-Muazzal (ARDP), Group or Samity-based Unsecured Investment Scheme (AIBL, 2021).⁶⁹ “FISBL UDDOMY,” an investment product that FSIBL introduced, aimed to help CMSME owners (FSIBL). IBBL commenced the “Rural Development Scheme” (RDS) in 1995, intending to eradicate rural poverty via job creation, agriculture, and the establishment of agro-based companies.⁷⁰ The names of these various schemes by IBBL are as follows:

Small business investment scheme, Agriculture implements investment scheme, rural development scheme, micro-enterprise investment scheme,

⁶⁷ *Ibid.*, 201.

⁶⁸ ICB Islamic Bank Limited (ICBIBL). 2020. “Annual Report 2020.”

⁶⁹ Arafah Islami Bank (AIBL), Al. 2020. “Annual Report 2020.” <https://doi.org/https://www.aibl.com.bd/download/financial-statement/Annual-Report/2020.pdf>.

⁷⁰ ICB Islami Bank Limited (ICBIBL). 2020. “Annual Report 2020”, p. 26.

micro industries investment scheme, women entrepreneurs' investment scheme, NRB entrepreneurs' investment scheme, car investment scheme, transport investment scheme, urban poor development scheme, solar panel investment scheme [...] (IBBL).

Furthermore, ICB Islamic Bank Limited (ICBIBL) offers a wide range of products to satisfy the needs of these clients with a team of highly qualified relationship managers that are stationed at branches to provide special one-stop service to a bank's SME customers (ICBIBL). For example, ICBIBL Sunibash is an EMI-based investment facility for housing employees and others with lower-income jobs in and around industrial and commercial regions across the country (ICBIBL). ICBIBL also has a transportation finance scheme for SMEs that provides customers with a flexible and cheap investment with simple repayment choices, enabling them to purchase commercial vehicles and operate their businesses (ICBIBL). SIBL reorganised its Islamic Microfinance activities under the name "Family Empowerment Islamic Micro-Finance Program (FEIMP)", launched in 2015 (SIBL).

Based on the findings, it is understandable that various programs, schemes, and products were created to meet the needs of diverse MSMEs operating across different economic sectors.

4.5. Prioritising Women Entrepreneurs in Bangladesh

A country cannot develop economically without the involvement of female entrepreneurs who are essential for achieving sustainable economic growth and poverty reduction (FSIBL). We observed in the annual reports that all the banks give special consideration to female entrepreneurship in different ways in the country due to the effectiveness of the regulations of Bangladesh Bank. In line with the Bangladesh Bank Circular dated 08/02/2015, banks in Bangladesh are required to have a separate Women Entrepreneur Dedicated Desk/Help Desk that handles inquiries related to the topic in their branches (EBL). In addition, Bangladesh Bank directed all banks in 2021 to allocate a minimum of 15% of CMSME loans to female entrepreneurs in the country by 2024 (ICBIBL).⁷¹

Specifically, following the directives of Bangladesh Bank, Exim Bank established a unit that exclusively services women entrepreneurs (EBL). Exim bank has also established a distinct Women Entrepreneur Development Unit at our Head Office, which a female executive lead and launched an investment scheme called "Exim Durodorshini" exclusively for empowering women through the CMSME program with easy terms and conditions (EBL).

⁷¹ ICB Islami Bank Limited (ICBIBL). 2021. "Annual Report 2021."

Similarly, in compliance with the guidelines issued by Bangladesh Bank, SIBL established an independent unit called “Women Entrepreneur Development Unit (WEDU)” which handles the transactions of women entrepreneurs (SIBL). Besides, FISBL has two branches managed by women managers and staff mainly to render services to women entrepreneurs (FISBL).⁷² It also launched a new product named “FSIBL SHABALOMBY,” mainly to improve women’s entrepreneurship under CMSM entrepreneurship (FISBL).

Moreover, the banks disclosed the details of the amount allocated to women entrepreneurs and the number of beneficiaries. In 2020, Exim Bank allocated the sum of Tak 235.05 Crore to CMSME women Entrepreneurs and increased to Tak 342.82 Crore. The number of women that benefited from such disbursements is 262 and 276, respectively. Despite 2020 being a year of a challenge due to COVID-19 FISBL was able to disburse Tak 108.83 Crore to women entrepreneurs in addition to the investment of Tak 5.19 crore under the SME stimulus package (FISBL). FISBL disbursed the sum of Tak 122.00 million to women entrepreneurs in Bangladesh between January and December 2021 (FISBL). The total SME portfolio allocated for women’s empowerment in 2020 by Al Arafah Bank was Tak 4264.33 million, of which Tak 3513.18 million was disbursed to them, representing 82.39% of the target. In the year 2021, the Total SME Portfolio increased to Tak 4571.60 82.39%, out of which Tak 3371.28 million which led to the attainment of 73.74% of the target for the year (AIBL). IBBL, through its program “RDS” has covered roughly 13.23 million people nationwide, with women making up the majority of the recipients at the end of 2020 (IBBL).

In addition, SJIBL pays the greatest attention to nurturing women entrepreneurs and as a result, disbursed Tak 1,310.66 million to them in 2020, with Tak 2,778.5 million being an outstanding amount from women entrepreneurs (SJIBL). In 2021, the portfolio for women entrepreneurs raised to Tak 2,916 from Tak 2,779 in 2020 and Tak 2,904 and Tak 852 were disbursed to them in these years, respectively (SJIBL).

Based on the findings, it is clearly noticeable that the entire Islamic banks in Bangladesh promote women’s entrepreneurship. Empowering women is in line with one of the key objectives of the Sustainable Development Goals of the United Nations, that is, SDG 5-“Gender equality”. Empowering women can eradicate poverty and achieve sustainable economic growth (AIBL).

⁷² First Security Islami Bank (FSIBL). 2020. “Annual Report 2020.” https://doi.org/https://fsiblbld.com/fsibl_document/Annual_Report_2020.pdf, 149.

4.6. Performance of Islamic Bank MSME Financing Practices in Bangladesh

In this section, we assessed the banks' contributions to mitigate the effects of COVID-19 in Bangladesh. As part of the ways of reducing the impact of COVID-19, the government announced a special SME package scheme for mitigating the problems caused by the pandemic (EBL). Hence, all the banks disclosed their commitments toward CMSME financing during COVID-19 and beyond.

During the year 2020, Al Arafah Bank's total CMSE portfolio was Tak 100196.89 million, with a budget of the sum of Tak 60,0000.00 million and fortunately provided Tak 61,005.39, which is equivalent to 101.67% of the target for the year. Besides, in 2021, the total CMSE portfolio increased to Tak 110641.00 million and gave Tak 65,984.19 million, which is 94.26% of the target for the year (AIBL). In line with the Bangladesh government, Exim Bank prioritised the CMSME sector by allocating 25.49% of its total investment to the sector, equivalent to 106% of the amount targeted to disburse (EBL). In 2021, the total investment allocated to CMSME was 22.99%, which led to the attainment of 134% of the targeted disbursement for the year (EBL).

By December 31, 2020, FISBL had provided the sum of Tak 45.83 Crore under the stimulus package to 286 SME clients who suffered the consequences of COVID-19 (FISBL). FISBL provided Tak 83.50 lac under the COVID-19 Scheme's SME stimulus package until the end of 2021 (FISBL). The Bangladesh Bank set aside Tak 850.00 crore for the Pandemic & Initiative of Exim Bank during the financial year 2020/2021, whereby 665 clients will get Tk.381.48 crore (45% of the target) from EXIM Bank till December 2020 (EBL). Also, IBBL spent Tak 246,842 million, making it the highest lender to the SME sector in Bangladesh in 2020, constituting 17.35% of the bank's total investment (IBBL).⁷³

Moreover, SJIBL is one of the top-ranked banks in Bangladesh and is praised for its solid track record in SME financing because it successfully extended investment facilities to its CMSME clients under the Financial Stimulus Package of the Bangladesh Bank (SJIBL). Despite the consequences of the pandemic, SME financing of SJIBL reached Tak 72,573.14 million in 2020, against Tak 72,516.50 million was disbursed in 2019 and also took part in the government's SME sector stimulus packages and distributed Tak 5,380 million to our SME customers (SJIBL). In 2021, 4,134 new CMSE borrowers worth Tak 10,411 million were added to the CMSE portfolio, and 132 new mid-segment clients joined as well (SJIBL). The SME portfolio of SIBL has

⁷³ Islami Bank Bangladesh Limited (IBBL). 2020. "Annual Report 2021." https://doi.org/https://www.islamibankbd.com/annual_report/Annual%20Report%202021.pdf.

shown consistent upward development. In comparison to the outstanding balance in 2009, which was just Tak 515.40 million, the SME portfolio owns 21% of the bank's overall investment portfolio as of December 2020, which stood at Tk.61,920.98 million (SIBL). Besides, as of December 2021, the SME portfolio owned Tk.57,263.50 million, or 18% of the bank's entire investment portfolio (SIBL).

In a nutshell, the findings reveal that Bangladeshi Islamic banks contributed a great deal to CMSME financing throughout the period. They are believed to be vital to their revival and sustainability during the pandemic. The number of CMSME beneficiaries also increased over the period.

V. CONCLUDING REMARKS

This research evaluated the MSME financing practices of Islamic banks during the COVID-19 pandemic in Bangladesh. The study applied a qualitative method by using documentary evidence from a sample of banks' annual reports over two years (2020-2021). The results indicate that Islamic banks in the country used agent banking to finance the operations of CMSMEs effectively. The banks also initiated various programs, programs and schemes that enable the enterprises to obtain funds for sustainable operations without difficulties. Also, the banks provide special consideration to women entrepreneurs and CMSMEs in rural areas. Overall, the findings show a remarkable improvement in MSME financing practices because of the amounts disbursed to MSMEs, the number of MSME beneficiaries, the new bank branches opened, and the number of bank staff employed to handle MSME financing.

Practically speaking, the findings have three key implications. First, the findings can guide the regulators, particularly the Bangladesh Bank, in revising the MSME financing regulations, which could stimulate Islamic banks to develop more programs to enable MSMEs to access Shariá-compliant funds in the country. Similarly, the central banks of other countries with strong operations of full-fledged Islamic banks, like Bahrain, Indonesia, Malaysia, Pakistan, the United Arab Emirates (UAE) and Saudi Arabia, can use these findings to reinvigorate their regulations for Shariá-compliant MSME financing. Second, the findings may enable banks to learn from each other to enhance their MSME financing since the study documents that they create different programs and strategies to provide funds to MSMEs. Third, relevant professional accounting associations, local and international (like the Accounting and Auditing Organization for Islamic Financial Institutions) can benefit from this study as it can guide them in developing accounting standards or guidelines for reporting MSME financing in the annual reports of Islamic

banks. Developing such reporting guidelines or standards is expected to boost MSME financing.

Though this study offers great contributions, it has two key limitations that need to be considered by future research. First, the study is restricted to Islamic banks in Bangladesh. Hence, there is a need to reflect it in other countries where Islamic banks operate. Second, it is limited to assessing MSME financing. Many other activities require in-depth investigation because they are vital to economic development. For example, future research should apply the documentary method to assess how Islamic banks finance agriculture.

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