INTRODUCTION

Flavia Cortelezzi and Alessandro Ferrari

1. Premise

It is possible to say that the roots of Islamic finance and Islamic banking are at the beginning – and at the core – of the Islamic revelation. It was also the appeal for justice and the human voluntarism in this direction promoted by the revelation of a merciful God that pushed the Prophet from the merchant's Mecca to Yathrib-Madinah legitimizing, with time, the economic thinking of Islam. It is for this reason, and because Islamic finance and banking genetically express a foundational link between revelation and human earthly well-being, that they occupy a very special place in the contemporary global market. If it is already arguable to define this latter as a real "secularised" space, Islamic finance and banking, with their direct link with at least one of the five Islamic pillars, have a very complex relationship with secularisation. In fact, they not only openly recall the inevitable moral tensions between means and purposes but raise the question about their role as real factors of "economic pluralism" able to interact with other economic "justice-oriented" economic approaches. Today, Islamic finance and Islamic banking are mostly found in the Middle East, Asia, and Africa, where they provide financial services to individual Muslims and to several governments and central banks in countries that often give Islamic finance an official or semi-official status. However, globalisation is also spreading Islamic banks and financial services across the so-called "Western world". In this way, Islamic finance is one of the instruments that aims, at the same time, to answer and to cause Muslim identity, revealing how thin is the thread on which walk those who really want to be instruments of divine justice and, at the same time, aspire to well-being as a reward for their commitment. For this reason, the Islamic finance industry today represents an important reality not only because of the oil wealth of the Gulf states, which have fuelled demand for such financial services, but also for an increased demand from a growing Muslim population in the West that aspires to express a full and all-inclusive religious identity. The increased demand for Muslim financial institutions in the West has also prompted Western non-Muslim firms to begin providing these services in an interesting effort of "acculturation" to the new plural scenario. HSBC, Lloyds Bank, Deutsche Bank and Citigroup are among the most notable examples of Western firms adapting to tap into these new Islamic, religiously oriented funds.

2. Contemporary Issues in Islamic Law, Economics, and Finance: The Analysis

By adopting a multidisciplinary approach, which will also take into account theological, legal and geopolitical frameworks, this book will offer a comprehensive picture of Islamic financial tools, contracts and business opportunities. These topics were at the centre of the training in Islamic finance and banking offered to businesspeople and market operators organised in the academic year 2020–2021 by the Research Centre RELEMS (Religion, Law and Economy in the Mediterranean Space) of the University of Insubria in the frame of PRIMED (Prevenzione e Interazione nello spazio Trans-Mediterraneo), a research grant funded by the Italian Ministry of University and devoted to foster the cooperation between Italian and OCI universities and from which this book has taken its inspiration.

The book explores how the interaction among religious principles, (different kinds of) laws, economics and finance, through different institutions and dynamics shape the evolution of instruments such as funds and contracts and their impacts in fostering business opportunities. In particular, the book will provide a complete and extensive overview of the practice of Islamic finance and banking through the lenses offered by studies of economics and management.

The book is organised into three Parts. The first Part explores how ethics and religious laws, legal system(s) of state(s) and economics interact in an integrated approach, generating sustained economic growth. Part 2 analyses some general principles related to the Economics and Finance of MENA Regions, the role of the EU's Cooperation Policy with the MENA and the capacity of Islamic Finance and banking to cope with a plural and democratic societal landscape. The third Part of the book focuses on Islamic Banking and Financial systems as a generator of Business Opportunities.

2.1. Part 1: Fundamentals and Comparative Perspectives

In the first chapter, Murat Cokgezen, going to the core of the issue, analyses the problem of how to reconcile Islam and Finance, and integrate Muslims into a universalistic and self-grounded Financial Market. According to Cokgezen, if there is a consensus among economics about the crucial role of financial markets in economic development and if it is possible for Muslims to allocate savings into investment channels, some of the allocation mechanisms of these markets conflict with basic Islamic teachings. A traditional example is interest, which remains one of the major prices in financial markets that allocates resources but also remains banned in Islam. These conflicts raise dilemmas for Muslims who want both to improve their economic status and live in accordance with the teachings of Islam. Scholars and practitioners from various disciplines have discussed different aspects of the tensions between market rules and Islam prescriptions. In order to find an accommodation and facilitate the inclusion of Muslims in the global financial markets – within this "osmotic frame", where different normative orders interact – practitioners and scholars have experienced and proposed financial instruments aimed at answering the claims of an Islamic orthopraxis. Obviously, the debate on the effective compliance of these financial instruments with "Islam" is still not over.

Deborah Scolart, in Chapter 2, highlights the relationships between Islamic Ethics, Law and Economics. In particular, she explores the conditions of the "islamicity" of a social or/and legal institution. To answer this question it is necessary to take into account not only the specific borders and contents of the so-called religious law, sharia in this case, but also the way in which the rules are formulated and how they translate the values generated by religious experiences. In the light of these methodological principles, according to Scolart, Islamic finance is not only the answer to the prohibition of *riba* and *gharar* but a broader expression of ethics and morality whose institutions share with others sharia-governed institutions the same orthopratic ambition towards the building of an effective justice-oriented society.

Murat Çizakça, in Chapter 3, examines the pre-conditions for Islamic finance to generate sustained economic growth. In this chapter he argues that the current obsession of Muslims with Islamic finance obscures the fact that unless certain pre-conditions are fulfilled, Islamic finance cannot trigger sustained economic growth in the Islamic world. The chapter identifies these pre-conditions and examine whether they can be "imported" from the West through an osmosis with Islam.

2.2. Part 2: Fundamentals of Mediterranean Economics and Finance

The first chapter of this section, written by Jamus Jerom Lim, offers a retrospective on the economics and finance of MENA regions. Lim examines the economic geography and history of the region, and then proceeds to sketch out the current political-economic structure of MENA economies, with a focus on intra-region commonalities and interrelationships. He then examines the region in a comparative perspective, with attention to future prospects. The paper then zooms in on one important aspect of finance in the MENA region: Sovereign Wealth Funds (SWF). SWF are here analysed in their main features, taking into account their both regional and global spread, with a particular focus on the role of macroeconomic assumptions.

Chapter 5, written by Giuseppe Colangelo, examines the EU Cooperation Policy with the Northern African Mediterranean and the Middle East Countries. The chapter analyses the recent developments of the European neighbourhood policy, starting from the pivotal Barcelona declaration, to illustrate the major changes, developments and results obtained since then. The chapter also evaluates the importance and the effectiveness of the aids granted by the European Union to these countries on their way to both economic improvement and the democratic transition after the Arab Spring turmoil.

2.3. Part 3: Banking, Finance, and Business Opportunities

In the first chapter of Part 3, Flavia Cortelezzi briefly presents the main principles and instruments used by Islamic finance, its diffusion and the opportunities and challenges of development of Islamic Financial System. After analysing the diffusion of this financial system in Mediterranean countries, she focuses on its main instruments, in particular stressing its distinctive features. Estimating the value of any asset on the basis of its "real" value, entering into contract and clearly defining the prices of goods/services and the share of each partner in profit/loss seem the more important assets of this financial system today by traditional firms and banks when considering promising business opportunities.

In Chapter 7, Paolo Biancone and Silvana Secinaro describe the framework and functioning of the Islamic Bank, analysing its differences from conventional banks. In particular, they emphasise the parallelism between the universality of the religious roots of this system and the universality of the possible replication of the latter at the international level. In fact, the goal of the chapter is to analyse the characteristics and functions that can guarantee the replicability of the Islamic banking in the global market as a catalyser of ethical-social oriented investments.

In Chapter 8, Cedomir Nestorovic, focuses on the marketing of Islamic banks and Takaful companies. The concept of marketing is considered a novelty for the Islamic banking industry, which used to rely mainly on "natural" Muslim, Islamic sentiments. This chapter explores how banks promote the performative effect *marketing* strategies to Islamise their financial products and services through articulated plans based on principles, policies and practices.

Michael J.T. Mcmillen, in Chapters 9 and 10, examines how Islamic finance enhances business opportunities in becoming a global industry and providing financial services to Muslim populations across the world. Some of these services, primarily Islamic banking, serve local Muslim populations. Others serve the needs of Middle Eastern investors who have sought to diversify and expand their investment portfolios – this is the case of services assisting the investments of Middle Eastern investors in real estate and private equity in the United States and Europe. The growth pattern of Islamic finance leaves the impression that Islamic finance is for Muslims and those relatively few North American and European entities that serve Muslim investors. Nevertheless, these chapters urge a broader view. In fact, they suggest a counterintuitive view that includes the perspective of the use of Islamic financing techniques to enhance the economic opportunities and interests of non-Muslim businesses in predominantly non-Muslim areas. Among the benefits of this approach, the chapters suggest the capacity of Islamic financing in facilitating the access to a large pool of otherwise unavailable investment capital and the related advantages of risk diversification in capital sourcing affording, at the same time, the benefits of ethical financing. Lack of familiarity with Islamic finance is an impediment to the use its techniques in jurisdictions where Muslims are the minority. For the other, various preconceptions attend that lack of familiarity. In fact, Islamic finance transactions are thought to be based upon mysterious and uncertain principles and to be more complicated in terms of documentation and implementation. These two chapters address those preconceptions and attempt to dispel some of the related misconceptions. A few of the most common transactional structures are discussed and compared to their interest-based financing equivalents in the "traditional" market. Within this general frame, the first paper addresses the realm of private investment and the second that of capital markets financings.

Finally, Fabrizio Vismara concludes Part 3 with Chapter 11 which provides some insight specifically from the Italian financial market. In fact, this chapter examines some aspects related to the application of Islamic finance principles in the Italian legal system, comparing the possibility of accommodation between the principles of Islamic finance and national rules. The most relevant aspects of Islamic finance products are examined in the light of Italian internal regulations, with particular reference to the Consolidated Financial Act (Legislative Decree no. 58 of 24 February 1998) and the practice of the National Commission for Companies and the Stock Exchange.

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Part 1

FUNDAMENTALS AND COMPARATIVE PERSPECTIVES

Chapter 1

RECONCILING ISLAM AND FINANCE:

CHALLENGES IN INTEGRATING MUSLIMS INTO FINANCIAL MARKETS

Murat Çokgezen

SUMMARY: 1. Introduction. – 2. Islamic Restrictions on Financial Deals. – 3. Continuing with Conventional Instruments. – 4. Creating Islamic Alternatives. – 5. How Islamic are "Islamic" Financial Instruments? – 6. Muslims and Islamic Financial Instruments. – 7. Conclusion. – References.

1. Introduction

Islam is an earthly religion which regulates all aspects of life, and a Muslim should organise their life in harmony with these rules, the Islamic law (*Sharia*). The basic sources of Islamic law are the Quran (words of *Allah*) and the *Hadiths* (sayings of the Islamic prophet Muhammad). In addition to the Quran and the *Sunnah*, Muslim jurists developed secondary sources [1] which provide principles to interpret these primary sources in the event they are silent or unclear on an issue. As every single jurist has interpreted the primary sources in their own way, [2] no uniform rules have been laid down on issues that are not clearly regulated by the primary sources. Each interpretation is binding only on the one who makes the interpretation and on those who have bound themselves to the interpreter. This means that in practice, on issues where primary sources are silent or unclear, Muslims themselves decide what is Islamic-compliant and act accordingly.

Islam also governs the financial activities of Muslims and imposes restrictions on them. Some of these restrictions have raised questions regarding the compatibility of the conventional financial instruments commonly used in markets with Islamic regulations. Primary sources did not provide definitive answers to these questions. Muslims then turned to Islamic jurists

[1] The main secondary sources are *Qiyas* (analogy), *Ijma* (consensus) and *Ijtihad* (reasoning).

[2] Since the creation of Islam in the 7th century various schools of jurisprudence have emerged, each with its own interpretation and application of the *Sharia*. There are two main schools of thought within Islam: Sunni and Shia. Sunnis are further divided into four surviving schools of law (Hanafi, Hanbali, Maliki, Shafi'i).

for an answer. However, their answers were not uniform. Whereas one group of Islamic jurists allowed the use of conventional financial products, another group did not. Of these answers, whereas some were satisfied with the those of the first group of jurists, for the followers of the second a new question was raised: If the conventional instruments are not permissible, how could they borrow and lend money without breaching Islamic regulations? This problem has been solved with the creation of Islamic-compliant financial tools that have been developed with the cooperation of financial professionals, lawyers, and Islamic jurists (El-Gamal, 2006, p. 12). The issuance of new Islamic financial instruments has once again divided Islamic scholars and triggered another discussion on the compliancy of these products with Islam.

This chapter provides an overview of the restrictions imposed by Islam on financial activities, the different interpretations of these restrictions, the Islamic financial products developed as a response to such Islamic restrictions, the discussions of these products, and Muslims' responses to these discussions. It is intended as a guide for a Muslim who aims to involve themselves in an Islamic compliant (*Halal*) financial transaction, and does not claim to be a detailed jurisprudential analysis of Islam restrictions.[3] As is shown in the following sections, involvement in a *Halal* transaction is not an easy task for an inquisitive Muslim who wants to live a life in harmony with Islamic principles. Our analysis is limited to two restrictions (*Riba* and *Gharar*) and two financial transactions (borrowing/lending and insurance), but the results can also be extended to other restrictions and transactions.

2. Islamic Restrictions on Financial Deals

Involvement in a financial activity that is compatible with Islam requires adopting some principles and attitudes, and avoiding certain prohibitions prescribed in Islamic teachings. Some of these principles, such as enunciating justice, mutual help, honesty, avoiding fraud, the promotion of transparency and disclosures, etc., are no different from the norms of other faiths or the formal rules of the secular world (Ayub, 2007, 64–70). The distinguishing feature of Islam in the field of finance is prohibitions. Islamic teachings identify two major elements[4] that should be avoided in finan-

[3] Detailed analyses can be found in AYUB (2007), EL-GAMAL (2006), USMANI (1998) and VISSER (2009).

[4] AYUB (2007) also mentions a third element: Maisir and Qimar (gambling). Since Maisir and Qimar are closely related to Gharar, this chapter concentrates on Gharar only.

cial transactions (El-Gamal, 2006; Visser, 2009): *Riba* (interest) and *Gharar* (excessive uncertainty). The presence of these elements in financial transactions will make them Islamically void.

Riba

Riba is an Arabic word which means "increase" or "addition". It refers to an addition to the principal and is the equivalent of the term "interest" in modern finance. The *Riba* ban is mentioned in a number of verses in the Quran (Al-Baqarah 2:275, 276, 278 and 279, Al-Imran 3:130, Al-Room 30:39). For instance, in Al-Baqarah 2:275, it is stated that "*Allah* has permitted trading and forbidden usury".[5] *Riba* is unlawful not only for the lenders but also the borrowers and other parties involved. It is only permissible for the borrowers in the case of desperate need (Aransyub, 2007, p. 47). Therefore, there is no discussion among Islamic scholars regarding whether *Riba* is banned in Islam.

Although the *Riba* ban is clearly stated, it is not clearly defined in the Quran and no consensus exists in this regard. For the definition of *Riba*, Islamic scholars refer to *Hadiths*. In a *Hadith*, an Islamic compliant financial transaction is defined by the prophet Mohammed as:

> Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal, hand to hand, if the commodities differ, then you may sell as you wish provided the exchange is hand to hand.... Whoever gives more or ask for more has engaged in *Riba*.
>
> (Sunan an-Nasa'i 4560)

According to this *Hadith*, to be Islamically permissible, the exchange of the same item needs to be conducted simultaneously and with the same value or amount. Any increase or delay in this exchange is considered *Riba*. Accordingly, two broad categories of *Riba* are defined: *Riba al-nasi'ah* and *Riba al-fadl*. The first refers to conditional excess for delay of payment, whereas the second refers to the exchange of the same item, on the spot, but in excess.

Why *Riba* is prohibited in Islam is not explained in the Islamic texts. It is believed that if it is forbidden by God, its harm is greater than its benefits.[6] Detailed harms of *Riba* and the socioeconomic justification for the

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[5] Riba is usually translated as usury, not interest.

[6] "In them is great sin and (yet, some) benefit for people. But their sin is greater than their benefit" (AL-BAQARAH 2:219).

Riba ban are provided by Islamic jurists, who interpret and analyze the Quran and the sayings and actions of the prophet Muhammad (El-Gamal, p. 50). The arguments made to defend the *Riba* ban are based on a mixture of jurists' subjective evaluations on interest by using socioeconomic concepts such as fair income distribution, efficient use of resources, uncertainty and unemployment as well as related Islamic concepts such as brotherhood and *Tawhid*, none of which is peculiar to either an Islamic or any religious worldview.

Gharar

Gharar is a word in Arabic like *Riba* but its meaning is less clear. The term is associated with concepts such as risk, uncertainty, unknown and deception (Waemustafa & Sukri, 2016). In Islamic finance literature, *Gharar*

> is the sale of a thing which is not present at hand or the sale of a thing whose "*Aqibah*" (consequence) is not known or a sale involving hazard in which one does not know whether it will come to be or not.
>
> (Ayub, 2007, p. 58).

More broadly, the concept refers to contracts and transactions that contain excessive uncertainty, which are banned in Islam.

The *Gharar* ban is not specifically mentioned in Quran; rather, scholars usually refer to the following verse which condemns transactions and contracts which cause injustice for the contracting parties: "O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent". (Al-Nisa 4:29). As seen, in this verse there is no specific reference to uncertainty. However, the issue of *Gharar* is more explicitly addressed in the sayings of the prophet Mohammed. Abu Hurairah – one of the *Sahabah* (companions) of Muhammad – narrates that "Prophet prohibited the pebble sale and *Gharar* sale". Classical examples of *Gharar* – sale of fish in the sea, the birds in the sky, an unborn calf in its mother's womb – are also provided explicitly in a *Hadith*.

Each financial transaction involves a decision based on a choice between present and future rewards. Almost all of these financial transactions contain some amount of uncertainty – as the future is unknown to all of us – and interest – because of the time value of money – and therefore are potentially subject to Islamic restrictions. Consider borrowing money from a bank to buy a property, with interest charged on the loan at a floating rate, payable every month. This financial transaction, which takes place every day in many parts of the world, is prohibited in Islam because the transaction contains *Riba* (interest). Similarly, buying insurance, as millions of people do, to protect yourself from a potential loss is also prohibited in Islam because the transaction contains *Gharar* (uncertainty).[7] One may count many other financial transactions, which are carried out frequently in markets worldwide, as suffering from one or both of the prohibitions mentioned above. If this is the case, would a Muslim really borrow/lend money or buy insurance at all?

3. Continuing with Conventional Instruments

The restrictions imposed on financial transactions by Islamic canonical texts have raised questions about the permissibility of conventional products. That, in turn, has triggered a discussion among jurists and divided them into two main groups: Those who allow the use of conventional financial instruments and those who do not. The first group of jurists claims that *Riba* and *Gharar* forbidden in Islamic teachings refer not to the interest and uncertainty inherent in conventional transactions, but something different. Accordingly, the followers of the first group continue to use conventional instruments.

Some Interpretations Allowing Conventional Interest-Bearing Instruments

Although there is no question that *Riba* is prohibited in Islam, the meaning of *Riba* is unclear. It is not clearly defined neither in the Quran nor in the *Hadiths*. The ambiguity in the definition of *Riba* is also reported by the second *Caliph*,[8] Umar, who states that the Quranic verses on *Riba* were revealed in the last days of the prophet Mohammed's life, and he did not have an opportunity to interpret them properly (Rahman, 1964). The task of defining *Riba* therefore fell on Islamic scholars' shoulders. They have been fulfilling this task ever since. Therefore, today, the *Riba* definitions available in the Islamic literature are based on the interpretations of Islamic scholars by using secondary sources, and the number of definitions is as many as the number of scholars.

[7] In insurance, the price of insurance (insurance premium) is certain, but its compensation (insurance payment) is not certain (EL-GAMAL, 2006, 62).

[8] The supreme religious and political leader and successor to the Islamic prophet Muhammad.

At the one extreme lies those who claim that present-day interest and *Riba* are not the same. According to some scholars, what is prohibited in Islam is *Riba al-Jahiliyyah*, that was practiced in the Arab world in the pre-Islam era, or other specific forms of *Riba* that were available in the prophet Mohammed's time, and these cannot be applied to the forms of interest practice of modern times. For instance, unlike the loan transactions of the modern financial system in which the interest is added to the loan in the beginning, in *Riba al-Jahiliyyah*, the amount of debt is doubled in the event of default only (Farooq, 2009).

By referring to the verse "do not consume usurious interest, doubled and redoubled" in the Quran (3:130), some scholars have argued that only excessively high amounts of interest, usury, is banned in Islam. Another group have claimed that at the time of the revelation of the Quran, money was borrowed mainly for consumption needs, not for productive purposes and, therefore, for them the *Riba* ban is limited to consumption loans and does not cover interest over productive or commercial loans. Again, some jurists have legalised charging interest indexed to the inflation rate to a loan on the grounds that in an economy with inflation, the amount borrowed will not be the equivalent of the amount paid back in real terms, if no interest is charged (Ayub, 2007; Farooq, 2009).

Islamic jurists disagree over the interpretation of the abovementioned *Hadith*, which is also considered to define Islamic compliant financial transactions. For example, as noted earlier, the hadith identifies six commodities: Gold, silver, wheat, barley, date, and salt. Does the prohibition of *Riba* apply only to these six commodities or are they given as examples only? Some scholars take the literal meaning and conclude that *Riba* applies only to the six commodities specified in the *Hadith*, whereas others consider the six commodities as examples and claim that coverage of the *Riba* ban is wider. There is no unanimity of opinion on the range of coverage.

All of these interpretations and alike imply that what is prohibited in the Quran is either *Riba al-Jahiliyyah*, or usury or interest on consumption, or the interest imposed on the six goods mentioned in the *Hadith* etc. – but not the interest charged in conventional financial markets. Hence, there is no harm in using conventional financial instruments.

Some Interpretations which Allow Conventional Insurance

All transactions which involve *Riba* are unquestionably forbidden in Islam. However, some degree of *Gharar* (uncertainty) is acceptable in the Islamic framework; what is forbidden is excessive uncertainty. Next comes the question, "What is excessive?" No consensus exists among scholars regarding this question. In many cases, some scholars find the level of uncertainty in a contract acceptable and render the contract permissible, whereas others consider the opposite.

Take, for instance, insurance. Islamic scholars classify insurance into three categories with respect to their organisational structures:

1) Mutual insurance, in which a group of individuals or associations set up a fund to compensate the potential losses of group members;
2) Social insurance, in which the state compensates the potential losses of group members (citizens);
3) Commercial insurance, in which profit-oriented companies compensate losses of their customers in exchange for a premium.

Most Islamic jurists conclude that whereas mutual and social insurance is permissible, commercial insurance is unacceptable in Islam on the grounds that it contains excessive *Gharar.*[9] Insurance is said to contain *Gharar* as the insured person is unsure whether or not they will receive the compensation they are paying for. If the risk does not occur, they have paid an insurance premium but received nothing in return. Similarly, the insurer does not know how much they will pay to the insured if the risk occurs (Anwar & Hussain, 1994; Ahmad, 2002; Shalim, 2016).

However, some Islamic scholars hold that conventional insurance is compatible with Islam. They argue that an insurance contract has a definitive objective in the beginning; the contractual parties do not rely upon something that is uncertain. The incident insured is not vague and is identified in the policy. Moreover, insurance companies can accurately predict the likelihood of the occurrence of insured risks simply by collecting and analysing data from past events (Anwar & Hussain, 1994; Ahmad, 2002).

Proponents of the view that Islam allows conventional insurance also refer to similarities between the logic of insurance and some allowed practices mentioned in Islamic teachings to support their argument. For instance, some scholars argue that insurance is similar to the practice of *Diyyah* – compensation paid to the victim or heirs of a victim in the cases of murder, bodily harm or property damage – and the insurance company is the *Aqilah*, the party responsible for the payment of the *Diyyah*. Another ancient type of contract similar to insurance is *Wala al-Muwalat*. In this contract, one party agrees to leave their estate after their death to the latter, on the understanding that the benefactor will pay compensation in case the former commits any wrongful act. These and other permissible practices of

[9] It is also considered a form of gambling and is based on the concept and practice of charging interest.

early Islamic societies are used by the scholars who permit conventional insurance to support their views.

Some jurists justify the use of conventional insurance by referring to two concepts of traditional Islamic law: *Al-Maslaha* (public interest) and *Darurah* (necessity). In Islam, Muslims may disregard aspects of Islamic laws if it is necessary (to save lives or preserve the Islamic community) or if it serves the public interest of the Muslim community. Based on these notions, jurists deem conventional insurance permissible, because insurance preserves the wealth of the insured and their dependents, and improves the welfare of Muslims (Anwar & Hussain, 1994; Shalim, 2016).

4. Creating Islamic Alternatives

The strict restrictions on financial contracts imposed by Islam have not discouraged Muslims from financial activities. They have continued to be involved in financial transactions since the early stages of Islam yet have not been able to create efficient financial institutions such as a conventional banking system until the mid-20th century. Although the forerunners appeared beforehand, the emergence of Islamic financial institutions coincides with the oil shock of the 1970s. The influx of petro-dollars first helped the development of Islamic banks in oil-rich Arabic countries and then their spread to the world. More recently, conventional financial institutions have opened Islamic subsidiaries. The development of Islamic financial institutions, accompanied by the growth of financial instruments specifically designed with respect to Islamic restrictions and as a substitute for conventional financial tools, were created with the cooperation of financial professionals, lawyers and Islamic jurists. Muslims who are not convinced by the views of jurists who allow the use of conventional financial products prefer these “Islamic” alternatives.

Lending/Borrowing without Interest

Inspired by their modern counterparts, Islamic financial instruments can be grouped under two broad categories: Equity-like and debt-like products. [10]

One form of equity-like financial instrument is *Mudaraba*. This is a partnership contract where one party (lender) provides capital and acts like a passive investor and the other party (borrower) provides labour and skills

[10] On may also add a third category, charitable lending (*Quard Hassan*).