



## **Role of Islamic Financial Institutions in Managing Economic Crises**

Mohammed Buba

Department of Islamic Studies, School of Art and Social Science, Federal College of Education, Yola,  
Nigeria

mohammedbubapj@gmail.com

### **Abstract**

Islamic funding institution represents an inimitable method of financial transaction without an element of interest either paid or charged; hence its popular designation as being “non-interest Institution” finance. This financial institution has started to breed in international finance across the globe, with some concentration in few countries. Nearly 20 percent annual growth of Islamic finance in recent years seems to point to its resilience and broad appeal, partly owing to principles that govern Islamic financial activities, including equity, participation, and ownership. In theory, Islamic finance is resilient to shocks because of its emphasis on risk sharing, limits on excessive risk taking, and strong link to real activities. Islamic banking system operates on two principles; Mudarabah and Musharak. Many Muslims do not put their money in the bank thereby encouraging idle cash. Several literatures were reviewed to assess different authors view on Islamic banking impact in a country’s banking sector. The macroeconomic policy implications of the rapid expansion of Islamic finance are far reaching and need careful considerations. The paper recommends adequate supervision and normal prudential guidelines to streamline its operation. The paper concludes that Islamic financial Institution as a part of a financial sector development strategy should be encouraged by regulations and supervision authorities, that accommodate its outward appearance while ensuring that their unfamiliarity is not exploited to defraud clients.

**Keywords:** Islamic, Mudarabah and Musharak.

### **1. Introduction**

Matters of economic crisis are topical issues in today’s Nigeria. Life has always been unstable for many Nigerians due to economic crisis. As the largest economy in Africa, Nigeria has witnessed series of economic distress for decades. So many artificial theories have been suggested by economists at local and international levels to remedy the situation and avoid future occurrence but to no avail. Islam as a complete and comprehensive way of life has proffered solutions to all problems, be it social, political or economical. It is in the light of this that, this paper specifically aims at studying the instrumentality of effective use of Islamic financial principles in tackling the Global economic crisis.

Islamic financial institutions offer a range of products and services that are supposed to meet the tests of *Shariah*. Below we provide an overview of the products and services and the underlying *Shariah*-nominate contracts. There are exchange-based contracts, such as, *murabaha*, *bai-bithaman-ajil*, *ijara*, *salam*, *istisna*, *istijrar* that create debt and hence, underlie debt-based financing products and securities. There are participatory contracts, such as, *mudaraba* and *musharaka* that underlie equity-based financing contracts and securities. These also underlie some deposit products used for mobilizing funds from the Savings- Surplus-Units (SSUs) in the economy. There are contracts, such as, *wadi’ah*, *amana*, *qard* that underlie deposit products. There are contracts, such as, *wakalah* and *ujr* that underlie many fee-based products.



Islamic financial institutions (IFIs) also serve as intermediaries between the saving surplus and the deficit units/households. However, the instrument of “interest” is replaced by a number of instruments. While conventional banks mainly pay and charge interest in their operations, Islamic financial institutions have to avoid interest and use more than one key instrument as the basis of their intermediary activities. The striking difference is that risks in Islamic banking remain with the ownership, as a result of which, IFIs share profit or loss arising on investments and earn return on their trading and leasing activities by dint of the risk and liability taken and adding value in real business activities. They mobilize deposits on the basis of profit/loss sharing and to some extent on the basis of Wakalah against pre-agreed service charges or agency fees, Randall, D. (2013).

## **2. The Islamic Financial Institution**

Dusuki and Abdullah (2006) opined that, almost 25 percent of Islamic financial institutions now operate in countries that do not have Muslim majorities and interest-based banks have opened up “Islamic windows” to attract the growing number of Muslims living in Europe and North America. Some banks in Nigeria equally have “Islamic window” for example Mainstreet bank, Stanbic IBTC, United Bank for Africa, etc. Based on these, one can argue that Islamic banking is no longer regarded as a business entity striving only to fulfill the religious obligations of the Muslim community, but more significantly, as a business that is ineluctably in need for winning over customers and at the same time retaining the old ones for economic development. Bley and Kuehn, (2005) argued that Islamic financial services sector is growing at double digit rates.

IFIs will remain as intermediaries, as they collect savings from a large number of savers/investors for financing the needs of business, agriculture and industry, but their modus operandi will change. Their subject matter will be goods and real business activities.

However, Islamic financial institutions comprise a number of financial intermediaries broadly classified as Islamic banking institutions (IBI) consisting of central bank, Islamic commercial banks, investment banks, Islamic microfinance banks and non- bank Islamic finance institutions (NBIFs) such as Islamic insurance (Takaful), Islamic mutual funds, Zakat, Waqf and Islamic finance companies offering a range of financial services.

Islamic finance is founded based on the prohibition of *Riba* (loosely translated as interest). Citing Az-Zuhayli (2006), Rahim Abdul Rahman (2010) stated that *Riba* can be divided into two categories – *riba al-nasiah* (credit riba) and *riba al-fadl* (surplus riba). While *riba al-nasiah* is bringing fixed increments in loans after an interval of time or extension of time over the fixed period, *riba al-fadl* is the sale of similar items with a disparity in the amount by exchanging similar items in excess of the quantity by the borrower to the lender. It also exists if there is delay in the delivery of goods offered. Therefore, Islamic finance plays a significant role in providing financial access, especially to those excluded from conventional financial institutions using its risk-sharing Shariah-compliant financial products and services, and the redistributive elements of Islamic finance - Zakat, Waqaf, Sadaqah and Qard al-Hasan.

While Islamic finance help in providing financial access to those looking for Shariah-compliant financial products, Islamic microfinance, specifically targets the segment of the society that are excluded from formal financial services because of their inability to access commercial banking services due to cost, lack of collateral, or other excluding factors. Islamic microfinance is defined as the provision of financial services among the low income based on Islamic Sharia. It operates based on Islamic jurisprudence which prohibits dealing in interest, the avoidance of gharar, participating in risk-sharing activities, and ensuring the welfare of all members of the society (Nabi et al. 2017). It thus uses partnership, trade and lease-based financing structures that ends in changing ownership of physical assets Rhule, Karice (2016). It is therefore



the Sharia-compliant way of providing financing to those that could not access mainstream financial services to help them startup a new business, or maintain their existing business (Hassan, 2015).

According to Ali (2015) and Hassan (2015), Islamic microfinance is beyond the provision of financial inclusion. In addition to that, it is expected to also provide social inclusion through the twin tools of lending and *Zakah*. This is expected to make Islamic microfinance more effective. In addition, contrary to the conventional banks that provide loans based on interest, Islamic banks facilitates the transaction by acting as a trader, thereby participating fully in the transaction (Tahir, 2007). This attracts investors and entrepreneurs, especially from the informal sector that have been alienated from conventional banking system.

The Islamic financial system is not limited to banking but covers insurance, capital formation, capital markets, and all types of financial intermediation and suggests that moral and ethical aspects in the regulatory framework are also necessary in addition to prudent and sound controls. Indeed, Islamic finance is built upon some distinctive and unique characteristics which are based upon certain principles underlined by Shari'ah. Some of the prominent elements constituting parts of its characteristics include: the prohibition of Riba or pre-determined rate of interest, the prevention of gharar (ambiguity) in contracts, the prohibition of gambling (maysir), the prohibition of conducting economic or investment activities which are ethically and socially unacceptable albeit profitable (e.g., pornography, gambling, alcohol and prostitution), the prohibition of monopoly, the introduction of a religious levy or alms-giving(zakat), and co-operation for the benefit of society and development of all religiously legitimized (halal) aspects of business, trade and investment. ISRA (2010).

### **3. Sukuk and the Ifi's**

Unfortunately, looking at the Sukuk market, Africa is still the weakest of all players, behind countries like the UK, USA and Singapore. South Africa, which currently leads in the African international Sukuk issuances, accounts for just 0.20 per cent of the global Sukuk market, while Nigeria's share stands at only 0.06 per cent," he stated. The idea of using Sukuk to develop infrastructure in Nigeria was conceived in the last administration under President Goodluck Jonathan, but he said the political will was not strong enough to bring the beautiful idea to fruition. In 2017, President Muhammadu Buhari took the bull by the horn by issuing the first Sovereign Sukuk worth ₦100 billion. "To the admiration of all Nigerians across ethnic and religious divides, Sukuk is today a major instrument for developing key economic roads in all the six geopolitical zones of the country: East, West, South and North. Having seen the huge success recorded in the maiden exercise, the Federal Government returned to the Sukuk market in 2018 and issued another ₦100 billion worth Sukuk, which was oversubscribed by Nigerian investors, just like the first issuance. "In May 2020, the third FGN Sukuk worth ₦150 billion was also offered for subscription. The offer attracted a high-level subscription of ₦669,124 billion, representing an over subscription rate of 446 per cent," he stated. In view of the developments, Alaro recommended that Nigeria with its large Muslim population should aim at anything less than making the country the hub of Islamic finance in Africa, noting that Nigeria is still trailing in the global Sukuk market behind South Africa, a country with less than 5 per cent Muslim population. With the unprecedented success rate of sukuk for road and school construction in the country, he said governments at all levels, as well as corporate organisations should take advantage of the innovative instrument to develop other key sectors of the economy. On the regulation, he said the practice of Islamic finance in Nigeria needs a complete set of facilitating laws that will replace most of the subsidiary legislations and guidelines that are currently the backbone of Islamic finance practice in the country. According to him, necessary amendments should be made into the laws with a view to giving judges on the Shariah Court bench jurisdiction to hear and decide cases relating to Islamic finance. "They are indisputably more competent in this regard than the conventional court judges, who presently have the jurisdiction. In the interim, the Central Bank of Nigeria (CBN) is advised to initiate a process that will allow it to constitute a 'special tribunal' for resolution of Islamic banking related disputes," he said. Alaro



stressed that Islamic banking operators in Nigeria need to be alive to their responsibility of creating necessary awareness for members of the public on the rudiments of Islami banking, to avoid unnecessary misgivings and misconceptions about their operations. He urged bankers and other providers of Islamic financial services to also improve on the standard of documentation of Islamic financial contracts used in defining the relationship with their customers.

### 3.1 Islamic Banking Model Islamic Bank Balance Sheet

<i>Assets</i>	<i>Liabilities</i>
Cash and liquid securities	Demand deposits ( <i>qard al hasan, wakala</i> )
	Interbank <i>murâbahah</i>
Interbank <i>murâbahah</i>	Unrestricted profit-sharing investment
Inventory (real estate, automobiles, commodities, etc.)	Restricted profit-sharing investment accounts ( <i>mudârabah</i> ) 1/
Asset-backed transactions ( <i>murâbahah</i> )2/ <i>ijârah, salam, and istisna'</i>	Reserves (PER, IRR)
Profit-and-loss sharing (PLS) transactions ( <i>mudârabah, musharakah</i> )	Shareholders' equity capital
Fee-based services ( <i>wakalah, kafalah</i> ) 2/	

1. Restricted profit-sharing investment accounts are generally included off-balance sheet.
2. Fee-based services include letters of credit, letters of guarantee, safekeeping of negotiable instruments and the collection of payments, internal and external transfer operations, hiring coffers, administration of real estate or projects, and administration of wills. Most of them are generally included off-balance sheet.

In theory, the business model of Islamic banks differs from conventional banks. Islamic banking rests on a two-tier *mudârabah* and *wakalah* model. The first-tier *mudârabah* refers to contracts signed between an investment account holder and the bank, whereby the account holder provides capital and the bank acts as the manager of funds. The second-tier *mudârabah* refers to contracts signed between the bank and a client, where the bank finances the entrepreneur who manages the businesses. Other sources of funds arise from setting reserves in a way unique to Islamic banks (profit equalization reserves (PER) and investment risk reserves (IRR), which carry the distinct characteristics of prudential tools without being included as part of equity capital. Islamic banks may also raise *Shari'ah*-compliant wholesale funding, and they meet their liquidity needs through interbank *murâbahah* financing, a large volume of which is conducted through the LME.

## 4. Merits of Islamic Financial Institution

### 4.1 Prohibition of interest (Riba)

*Prohibition of Riba (interest):* Riba is an Arabic word for “growth” or “increase” and denotes the payment or receipt of interest for the use of money. The Qur’an expressly forbids riba, which includes any payment of interest (not only excessive interest) on monetary loans. The Quran states, “O You who believe! Fear Allah and give up what remains of (due to you) of interest, if you should be believers” (Q:2:278) Usury encompasses any payment of interest. Muslim scholars have interpreted riba to mean any fixed or guaranteed interest payment on cash advances or on deposits (Mahmud, 2004). In prohibiting riba, Islam seeks to foster an environment based on fairness and justice. A loan with a fixed return to the lender, regardless of the outcome of the borrower’s course of action is viewed as unfair. Riba is also believed to be exploitative and unproductive because it is considered to represent sure gain to the lender without any



possibility of loss as well as a reward in return for no work. These factors are believed to lead, in turn, to inflation and unemployment and to stifle the social and infrastructural development of a nation.

#### **4.2 Risk and Return sharing**

Shari'ah prohibits Muslims from earning income by charging interest but permits income generation through the sharing of risks and rewards between the parties to a transaction (no pain no gain strategy). This profit-sharing mechanism is believed to encourage people to become partners and work together rather than to enter into a creditor–debtor relationship. Partnership promotes mutual responsibility for the outcome of the financed project, which is believed to increase the likelihood of success of the venture. A tangential aim of the partnership approach is to help increase the growth of successful projects, also provide stimulus to the economy. On their analysis Cihák and Hesse (2008), proved that Islamic financial system is financially stronger and less risky than conventional banks. In the conventional system, a depreciation of assets due to an exogenous shock downgrade the bank Equity capital, since its depositors have fixed value securities (the deposits), and which may lead to risks to cause the bankruptcy. In an Islamic system, the possessors of investment accounts don't have fixed value securities, in macroeconomic or bank-specific crises investment depositors automatically share the risk, which allows an adjustment of the liability, in case of asset reduction.

#### **4.3 Prohibition of speculative behavior**

Gharar refers to any transaction of probable items whose existence or characteristics are not certain, due to lack of information, ignorance of essential elements in the transaction to either party, or uncertainty of the ability of one party to honor the contract. The Islam has forbidden the purchase of the unborn animal in the mother's womb, the sale of the milk in the udder without measurement, the purchase of spoils of war prior to distribution, the purchase of charities prior to their receipt, and the sale of fish in the sea. All Islamic finance scholars agree that Gharar should be avoided in commercial exchange contracts. As Islamic Shariah forbids riba (interest) because it leads to exploitation and injustice in the society, it also forbids Gharar in any transaction to protect the two parties from deceit, ignorance, and uncertainty. Islamic finance prohibits transactions featuring speculation including extreme uncertainties, gambling, and risks. Therefore, transactions in Islamic finance should be backed by real assets. Shariah prohibits financial transactions that involve Gharar, which is often translated as “deception,” “excessive risk,” or “excessive uncertainty”.

#### **4.4 Sanctity of contracts**

Islam teachings uphold contractual obligations and related disclosure of information as a sacred duty. Full disclosure is intent to reduce financial speculation (gambling), which is strictly prohibited by Islam, by providing as much information as possible for investors to make accurate assessments about the risks and rewards of an investment. The conditions that are necessary for a contract to be valid include a competent understanding of the underlying assets and the profit-sharing ratio, as well as the presence of a willing buyer and seller. Contracts must also not offend Islamic religious and moral principles; if they do, they will be deemed illegal and unenforceable (Shanmugam, 2009).

#### **4.5 Key Principles of Islamic Finance**

Islamic economics and finance derive from immutable principles rooted in the rulings of the *Shari'ah* legal code. Unlike legal systems that are limited to secular aspects of daily life, including transactions falling under either the political, economic, or social sphere (*muamalat*). In Islamic economics, productive human activity is mandatory. Islam does not endorse every human wish, and it prohibits on moral grounds activities related to tobacco and other drugs, alcohol, pork products, gambling involving money and non-money assets (*maysir*), speculation, pornography, and armaments and destructive weapons.

This principle is applicable to both labor and capital. As no payment is allowed to labor unless it is applied to risk, so no reward for capital should be allowed unless it is exposed to business risks. Consider



two persons, one of whom has capital but no special skills in business while the other has managerial skills but possesses no capital. They can co-operate in either of two ways.

1. **Debt – financing** (the western loan system): The businessman borrows capital from the capital owner and invests it in his trade. The capital owner is to get back his principal an additional amount on the basis of a fixed rate, called the interest rate, as his compensation for parting with liquidity for a fixed period. This payment is due irrespective of whether the businessman has made a profit using the borrowed money. In the event of a loss, the borrower has to repay the principal amount of the loan, as well as the accounted interest from his own resources, while the capital – owner loses nothing. Islamic views this as an unjust transaction.
2. **Mudarabah** (the Islamic way, or pls). The two persons co-operate with each other on the basis of partnership, where the capital – owner provides the capital and the other party puts his management skills into the business. The capital – owner is not involved in the actual day – to – day running of the business, but is free to stipulate certain conditions that he may deem necessary to ensure the best use of his funds. After the expired period, which may be the termination of the contract or such time that returns are obtained from the business, the capital owner gets back his principal amount together with a pre-agreed share of the profit. The ration in which the capital – owner and the manager of the enterprise is determined and mutually agreed at the time of entering the contract, before carrying out the project. In the event of loss, the capital owner bears all the loss and the principal is reduced by the amount of the loss.

## 5. Macroeconomic Implications of Islamic Finance

### 5.1 Financial Stability

Islamic financial institutions largely escaped the direct impact of the global financial crisis and were initially insulated from its ravages, but they were not immune to its second-round effects. As the crisis became global and hit the real economy with a general downturn, the value of assets declined, real estate and property prices crumbled, and nonperforming Islamic financing rose, inflicting substantial losses on a number of Islamic banks.

In theory, Islamic banks are more resilient to shocks than conventional banks because *gharar* considerations prohibit them from investing in excessively risky subprime and toxic assets, as well as zero-sum betting on derivatives. By promoting risk sharing (as opposed to risk transfer) and endorsing investment in wealth creating activities, the asset-based nature of Islamic financing naturally curbs excessive leverage. It also restricts banks from investing in highly leveraged assets and short selling, suggesting that they are likely to foster financial stability and render the global financial system less prone to financial distress. The direct link between the financial and the real or trade sectors may also prevent technical speculations and potential bubbles. Further, increased monitoring by investment account holders may help impose market discipline on banks and maintain financial stability. Some also contend that Islamic banks are likely to function in a more prudent manner because withdrawal risk may be higher compared to conventional banks. Also, since Islamic banks do not engage in interest-based operations, their financing seems to be less affected by interest rates changes compared with conventional banks, but they are not entirely isolated from interest rate risk.

Finally, while a downturn in the real economy will affect the profitability of Islamic banks, the ability of these banks to share this risk, at least partly, with depositors provides a cushion against a widespread crisis. The empirical evidence on Islamic banks' resilience is, however, mixed. Islamic banks seemed to show greater resilience to the recent financial crisis compared with conventional banks, because they consistently held more capital and liquidity buffers. In a cross-country study, Abedifar et al., (2013) report no significant differences in insolvency risk between Islamic and conventional banks, but results for credit risk are mixed and contingent upon the measure used. They also find no significant differences in



terms of stability, and propose subjecting both types of financial institutions to the same macroprudential framework. Similarly, Krasicka and Nowak (2012) show that, while Islamic banks in Malaysia hold more capital and are more profitable than conventional banks, differences in practices were shrinking between them during the crisis as the market matured.

## **5.2 Monetary Policy**

An interest-free financial system calls for a modified monetary policy framework. With the prohibition of interest in the economy, the design of Shari'ah-compliant monetary policy is the center of attention among Islamic bankers and economists. Islamic principles call for ensuring a level playing field among market participants, thereby allowing the economy to expand and helping to alleviate poverty. In a conventional economy, monetary policy traditionally seeks to curb inflation and mitigate output fluctuation. As noted by Khan and Mirakhor (1994) and echoed by others, monetary policy in an Islamic system is expected to facilitate the mobilization of savings and allocation of resources consistent with the economic development objectives of the system. Whereas the monetary policy objectives of the Islamic economy seem to be in line with those of the conventional economy, the monetary authorities in a Shari'ah-compliant system are prohibited from using any tool that involves a discount rate or other forms of interest rates. Nonetheless, open market operations, credit policies, reserve requirements, statutory reserves, equity-based instruments, refinancing ratios, and profit-sharing ratios have been suggested for the design of Shari'ah-compliant monetary policy tools.

The design of Shari'ah-compliant monetary policy instruments is proving to be challenging. There are two countries—Iran and Sudan—where the financial system is fully Shari'ah compliant. The challenge for the monetary authorities in these countries has been to design practical instruments that allow them to conduct efficient monetary policy. While there have been some innovative proposals for instruments that are comparable with conventional monetary policies, in practice the instruments have been limited to

- (i) Direct control over banking activities using the central bank's regulatory powers; limits on lending and deposit rates;
- (ii) Setting required reserve rates;
- (iii) Issuing central bank certificates and sukuk;
- (iv) Special deposits in the central bank; and
- (v) Credit ceilings. In fact, it seems that designing financial instruments to absorb excess liquidity in the system, without being directly linked to a specific underlying project, is key. The main difficulty is to identify a proper rate of return that could proxy the return on government and central bank securities (di Mauro and others, 2013).

Whereas most Islamic countries have been using conventional monetary policy tools as they try to develop new Shari'ah-compliant instruments, efforts to create new tools that comply with Shari'ah principles have picked up in recent years. However, the conduct of monetary policy remains a secular issue, with central banks having access to most of the conventional monetary policy instruments. In the meantime, the participation of Islamic banks in open market operations remains a challenge. The absence of an explicit framework for standing facilities in some countries, and the lack of instruments to manage liquidity and monetary policy operations, have caused Islamic banks to hold large excess liquidity and have impaired efficient liquidity management. While the monetary authorities require banks to hold Shari'ah-compliant reserve accounts with the central bank, the penalties levied on insufficient levels of reserves often differ for conventional and Islamic banks. Central banks are also using various kinds of government-issued sukuk, and some forms of central bank securities as monetary policy instruments, though their effectiveness is yet unknown. Different countries show a variety of approaches and tools being used for conducting monetary policy. For example, Kuwait and Bahrain are actively using various forms of sukuk, hbaha, and reverse murâbahah, whereas the United Arab Emirates relies heavily on foreign exchange swaps and Islamic Certificates of Deposits based on commodity murâbahah contracts for liquidity and monetary policy implementation. In Malaysia, the central bank has introduced a number of instruments—ijarah, mudârabah,



murâbahah, and bay' bithaman ajil contracts—to facilitate Islamic banks' participation in open market operations, along with Shari'ah-compliant government securities used to finance government operations. The persistent difficulty in many countries with parallel banking systems is the proper setup of SLOLR facilities to allow for efficient management of short-term liquidity— that is, to avoid excess and shortage of liquidity in the system.

Iran and Sudan, where only Islamic banking operates in the financial system, have developed musharakah-type contracts for their monetary policy. The central bank of Sudan Musharakah Certificates, issued against the participation of the central bank in the equity of private banks, as well as Ijārah certificates, are used to manage the liquidity of the domestic banking sector through open market operations, though it has been an expensive instrument in practice. Authorities in Sudan also issued government musharakah certificates (Shahama) and government investment certificates (Sarah) to help conduct monetary policy.

## **6. Conclusion**

The Islamic financial system is not limited to banking but covers insurance, capital formation, capital markets, and all types of financial intermediation and suggests that moral and ethical aspects in the regulatory framework are also necessary in addition to prudent and sound controls. Indeed, Islamic finance is built upon some distinctive and unique characteristics which are based upon certain principles underlined by Shari'ah. Some of the prominent elements constituting parts of its characteristics include: the prohibition of Riba or pre-determined rate of interest, the prevention of gharar (ambiguity) in contracts, the prohibition of gambling (maysir), the prohibition of conducting economic or investment activities which are ethically and socially unacceptable albeit profitable (e.g., pornography, gambling, alcohol and prostitution), the prohibition of monopoly, the introduction of a religious levy or alms-giving(zakat), and co-operation for the benefit of society and development of all religiously legitimized (halal) aspects of business, trade and investment. ISRA (2010).

It has also been proven without any doubt that Islam as a complete and comprehensive way of life has a very sound financial system, which is ethically oriented, asset-based and linked to real economic activities. The system also emphasizes that any financial dealing involving gambling, dealings in pork, alcohol, ammunition, pornography and any other unethical products, goods or services are non-permissible. Thus, Muslims have a moral obligation to conduct their financial activities, as well as other life endeavor in accordance with the requirements of their religion. They should be fair, honest, humble and just towards others.

As well, they must fulfill their promises and commitments; and pay their liabilities. However, such a sound financial system if properly implemented can curtail current economic crisis in Nigeria and avoid future occurrences. It will also help in achieving economic growth by diversifying the supply of venture or risk capital and consequently, encourages new project owners to actively partake in the realm of production due to more participation in the risk-taking process. This is the area where conventional banks are unable to make a remarkable impact owing to their high-interest rates and little or no support given to entrepreneurs.

## **References**

- Asian Development Bank and Islamic Financial Services Board (ADB and IFSB) (2015), *“Islamic Finance for Asia: Development, Prospects, and Inclusive Growth.”*
- Baele, L., M. Farooq, and S. Ongena (2012). “Of Religion and Redemption: Evidence from Default on Islamic Loans.” European Banking Center Discussion Paper, No. 2012–008 and Center Discussion Paper, No. 2012–014.





- Beck, T., A. Demirgüç-Kunt and O. Merrouche, (2013), “Islamic vs. Conventional Banking Business Model, Efficiency and Stability,” *Journal of Banking and Finance* No. 37 Vol. 2, pp. 433–47.
- Ben Naceur, S., A. Barajas and A. Massara (2015) “Can Islamic Banking Increase Financial Inclusion?” IMF Working Paper 15/31, (Washington: International Monetary Fund).
- Chapra, M. Umer. (2008), “The Global Financial Crisis: Can Islamic Finance Help Minimize the Severity and Frequency of Such a Crisis in the Future?” A Paper for the Forum on the Global Financial Crisis held at the Islamic Development Bank.
- Çakir, S. and Raei, F., (2007), “Sukuk vs. Eurobonds: Is There a Difference in Value-at-Risk?” IMF Working Paper 07/237, (Washington: International Monetary Fund).
- Chong, Beng Soon and Ming-Hua Liu, (2009), “Islamic Banking: Interest-Free or Interest-Based?” *Pacific-Basin Finance Journal* No. 17, pp. 125–44.
- Čihák, Martin and Heiko Hesse, (2010), “Islamic banks and financial stability: an empirical analysis”, *Journal of Financial Services Research*, Vol. 38 No.2, pp. 95–113.
- Demirgüç-Kunt A., L. Klapper, and D. Randall, 2013, "Islamic Finance and Financial Inclusion," Policy Research Working Paper 6642, (Washington: World Bank).
- Ongena and S. Zaher, (2013), “Islamic Finance in Europe,” *Occasional Paper Series*, European Central Bank, June 2013 (Frankfurt am Main, Germany).
- Farooq, M. and S. Zaheer, (2015), “Are Islamic Banks More Resilient During Financial Panics?” *Pacific Economic Review*, 20 (1). pp. 101–124
- Khan, Fahim, M. and Mario Porzio, (2010), *Islamic Banking and Finance in the European Union: A Challenge* (U.K., Edward Elgar Publishing Limited).