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The Oretical Approach to Islamic Finance: Case Study of Malaysia

المنهج النظري للتمويل الإسلامي: دراسة حالة ماليزيا

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Abstract:

Islamic finance has existed for several centuries but has gained momentum in recent times due to the strong demand for Islamic products from both Muslims and non-Muslims. Often perceived as a financial system that excludes interest payments, Islamic finance is based on strict religious principles that banking institutions strive to uphold. Over the past few years, it has experienced remarkable growth worldwide. While the perception of Islamic finance as interest-free is accurate, it is incomplete, as the system is founded on other important principles that promote entrepreneurship, risk-taking, transparency, and ethical values such as justice and fairness in negotiations. It also emphasizes mutual cooperation and respect among contracting parties. We addressed in our practical study the adoption of Islamic banking by Malaysia, which has emerged as a pioneer in this field and serves as a model for other countries, including Algeria, in embracing Islamic banking practices. And as a case study, we have chosen Malaysia where Islamic finance is highly developed, with references and some comparisons to Algeria

Keywords: Islamic finance - financial system - religious principles- The study of Malaysia

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ملخص:

التمويل الإسلامي قائم منذ قرون عديدة، لكنه اكتسب زخمًا في العصور الأخيرة نتيجة للطلب القوي على منتجات إسلامية من المسلمين وغير المسلمين على حد سواء. غالبًا ما يُنظر إليه على أنه نظام مالي يستبعد دفع الفوائد، ويستند التمويل الإسلامي إلى مبادئ دينية صارمة تسعى المؤسسات المصرفية للالتزام بها. خلال السنوات القليلة الماضية، شهد هذا التمويل نموًا ملحوظًا على الصعيدين العالمي والمحلي. على الرغم من أن التصور الشائع للتمويل الإسلامي كنظام خالٍ من الفوائد صحيح، إلا أنه غير كامل، حيث يستند النظام إلى مبادئ أخرى مهمة تشجع على روح ريادة الأعمال وتحمل المخاطر وتعزيز الشفافية والقيم الأخلاقية مثل العدالة والنزاهة في التفاوض. كما يشدد أيضًا على التعاون المتبادل واحترام الأطراف المتعاقدة بعضها البعض. وتناولنا في دراستنا التطبيقية على دولة ماليزيا لاعتمادها على الصيرفة الاسلامية واصبحت رائدة في هذا الميدان ونموذج تعتمد عليه دول اخرى بالتعامل بالصيرفة الاسلامية كالجزائر". كدراسة حالة، قررنا اختيار ماليزيا حيث تتطور بشكل كبير الخدمات المالية الإسلامية، مع الرجوع إلى مراجع وإجراء بعض التحاليل المقارنة مع الجزائر."

كلمات مفتاحية: التمويل الإسلامي – النظام المالي – المبادئ الدينية– دراسة ماليزيا

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THE ORETICAL APPROACH TO ISLAMIC FINANCE: Case of Malaysia

INTRODUCTION :

Islamic finance, amidst financial turbulence, has experienced remarkable development and is increasingly attracting international attention due to its ethico-religious and socially responsible dimension, as well as its strong connection to the real economy. Despite the global financial crisis that hit all financial markets, Islamic finance continued to expand significantly across continents, including Europe, Asia, Africa, and the United States. Both conventional and Islamic financial systems share the objective of mobilizing financial resources and allocating them among various investment projects. However, the principles governing the operation of the Islamic financial system differ fundamentally from those of conventional finance, with the prohibition of riba (interest) being the main distinction.

This study focuses on identifying the concept of Islamic finance, exploring its rapid development, and understanding its significance in shaping and enhancing the financial sector. Islamic finance has not only captured the interest of the Muslim community but also gained widespread appeal globally, with Islamic financial products increasingly prevalent worldwide, no longer limited solely to Muslim-majority regions. The swift growth of Islamic finance is an intriguing phenomenon that motivates our research.

The objective of this work is to examine Islamic finance, delving into its foundations, origins, and guiding principles. We formulate problem as follows:

In the pursuit of developing an alternative and viable Islamic financial system that meets the financing needs of an economy, what are the theoretical foundations upon which Islamic finance is based?

To address this question, we will explore the following aspects:

- What is Islamic finance?
- What are its guiding principles and the range of Islamic financial products offered?
- What are the fundamental elements that facilitate the effective functioning of Islamic finance?

By conducting this analysis, we aim to gain insights into the theoretical underpinnings of Islamic finance and its role in offering a robust and responsive financial system that caters to the diverse needs of economies.

1. Islamic finance:

- Definition of Islamic Finance:

Islamic finance is founded on the principles of Islamic law, known as Sharia, and seeks to promote a vision of justice, equity, and transparency.[4] It distinguishes itself from conventional finance by emphasizing Islamic ethics and morality, drawing inspiration from divine revelation, the Prophet Muhammad's traditions (Sunna), and economic and financial practices during his time. One of its fundamental principles is the prohibition of interest (riba) and the emphasis on social responsibility in investment. It closely ties the financial profitability of an investment to the tangible results of the associated project. Islam forbids both civil and commercial transactions that involve interest (riba) or speculation (maysir). However, the mechanisms used in practice often involve providing compensation to the lender.

[4] - « *Finance islamique* » [archive], sur financethique.fr

- **Islamic Finance Products:**

Participatory products based on the principle of profit and loss sharing:

- **Mudaraba:**

Mudaraba is a passive partnership between two partners, an investor (Rab al-Mal) and an entrepreneur (Mudarib), where the entrepreneur works to maximize the profitability of the invested capital. An Islamic bank can participate in this arrangement either as an investor, partnering with another bank in an economic project, or as an entrepreneur. The net result is distributed between the investor and the manager according to predetermined and explicit terms agreed upon. In case of failure, the net capital loss is entirely borne by the bank that invested. Islamic banks are, therefore, not inclined to offer this type of Mudaraba contract as a one-time operation, even though it is essential for small-scale projects. Mudaraba is akin to a limited partnership in conventional finance, where the passive partners do not participate in management.

- **Mudaraba:**

Mudaraba is an active contract as the bank is involved in project management. It mainly applies to long-term commercial or production operations. It is a joint venture, a form of economic association where partners share risks and expenses. At the signing of the contract, contributions must be owned and available to the contributors. They can be tangible and will be evaluated by mutual agreement. Regarding profit distribution, the partners have the freedom to pre-determine each one's share in the profits at the time of contract signing, regardless of the amount each one has invested in the association. In case of loss, it is distributed proportionally to the amounts invested by each partner. While each partner has the right to participate in the management of the Mudaraba, it is usually entrusted to one of the partners. Mudaraba with Diminishing Musharaka: The contribution of the financier (Rab el Mal) is gradually bought back by the other partners, resembling a conventional sharing operation. The surplus obtained by the Islamic bank would correspond to the remuneration for bearing the risk.

Commercial Products based on the Principle of Cost Plus Profit Margin:

- **Murabaha:**

Murabaha is a sale with a margin. The client instructs the bank to purchase a specific commodity from a third party at a predetermined price, with a promise to buy the commodity from the bank at a deferred price. The deferred price includes an agreed-upon profit margin in favor of the bank as compensation for its services. Murabaha is similar to a traditional sale.

- **Ijarah (Leasing):**

The term "Ijarah" is used in two different situations. Firstly, it refers to hiring someone's services against a fee. Secondly, "Ijarah" means transferring the usufruct of a specific property to another person in exchange for rent. In this case, "Ijarah" is analogous to the term "leasing" as used in modern business terminology. Here, the lessor is called "Mu'jir," the lessee is called "musta'jir," and the rent paid to the lessor is called "ujrah." Ijarah wa iqtina: It is a lease ending with the purchase of the leased asset. "Ijarah wa iqtina" is merely an Ijarah contract where ownership of the leased asset is transferred to the lessee at the end of the lease period, usually through a contract where the leased asset is either given or sold to the lessee at a symbolic price

- **Qard hasan (Benevolent Loans):**

This type of loan has a zero-interest rate, as required by Islam, for Muslims to extend to those in need. The borrower is obligated to repay only the principal amount of the loan but is allowed to add a margin of their choice.

- **Tawarruq:**

Tawarruq is a sale of an asset to a buyer with deferred payment. The buyer then sells the asset to a third party in cash at a lower price than the deferred price, aiming to obtain cash. However, each Tawarruq transaction creates a debt, which is always more than the money transferred to the customer. It is considered permissible in fiqh (Islamic jurisprudence) to charge a higher price for a commodity if payments are to be made at a later date (Bai'muajjal). According to fiqh, this is not considered interest, as it is not treated as a loan transaction but rather as a commercial transaction. Bai 'Mu'ajjal is valid; however, if the due date of the payment is fixed unambiguously, the deferred price can be higher than the cash price, but it must be fixed at the time of sale. Once the price is fixed, it cannot be reduced in case of early payment or increased in case of default.

- **Salam (or Bay 'As-salam):**

Salam is considered the Islamic alternative to conventional derivatives. It is a sale contract where the seller undertakes to supply a specific commodity to the buyer at a predetermined future date in exchange for "fully paid in cash in advance." The price is paid in cash, but the delivery of the purchased goods is deferred. "One of the fundamental conditions for the validity of a sale in Shari'ah is that the commodity (intended to be sold) must be in the physical or constructive possession of the seller."

- **Istisna:**

It is a contract in which one party orders another to manufacture and supply a commodity. The description, delivery date, price, and payment rate are all defined in the contract. Therefore, it is a type of sale where a commodity is treated before it comes into existence. However, for the validity of Istisna, the price must be determined with the consent of the parties, and the necessary specification of the product must be fully settled between them. "The price may be paid in installments, based on the progress of the work, or partly in advance and the remainder at the time of delivery." However, after the manufacturer has started work, the contract cannot be unilaterally canceled.

- **Other Islamic Financing Products:**
  - **<u>Sukuk:</u>**

Sukuk are Islamic bond instruments backed by tangible assets or investments in a business. Returns are used to remunerate investors. The maturity date of the bond is pre-determined. These bonds are issued on behalf of governments, companies, or banks through a Special Purpose Vehicle (SPV). The SPV securitizes the underlying asset. As multiple parties are involved in such transactions, there are multiple credit risks. These products do not exclude the possibility of default by the issuer, the bank handling the transaction, the entrepreneur when based on the Profit and Loss Sharing (PPP) principle, or the tenant in Ijarah transactions.

2. **The Theoretical Foundations of Islamic Finance:**

Islamic economics, like most other economic theories, aims to establish a society where basic human needs are met, resources are optimally utilized, and wealth is shared equitably. However, the prevalence of moral and religious dimensions leads to assigning a different weight to the pursued objectives, with profitability not being the primary goal. The priority is given to upholding the principles of Sharia: the principle of human economic rationality, the principle of justice, the principle of respecting moral values, the principle of property and zakat.

2.1. Principles of Sharia

2.1.1 Human Economic Rationality

Economic science is defined as the study of the behavior of the economic man (homo oeconomicus) in conventional economics. This behavior is assumed to be rational, motivating the economic man to act in pursuit of self-interest. On one hand, the producer will always seek to maximize profit by either maximizing production or minimizing costs. On the other hand, the consumer will strive for the maximization of utility, both aiming for prosperity and economic well-being. These notions of rationality and economic well-being are fundamental assumptions in capitalist economics, as they provide a simple model of human behavior. The simplicity stems from its positivist nature, excluding any ethical questions from its considerations. However, this concept of a "rational economic man" in the sense of social Darwinism, driven solely by self-interest, does not find a place within Islamic economics. Such simplicity is not acceptable within Islam. Rationality, in Islamic economics, is not limited to the satisfaction of personal interests in daily life, but extends to the afterlife by respecting moral values that help restrain self-interest and promote social interest. Thus, "Islam places personal interest in a long-term perspective that goes beyond this worldly life and reaches the hereafter. An individual may serve his own interest in this world through selfish use of resources, but he can serve his individual interest in the hereafter only by fulfilling his social obligations" (Chapra, M.U, 2000). Al-Mawardi (974-1058), like other Muslim scholars, believed that individual preferences should incorporate moral values (1958, p.118-20)[5]. Long ago, Ibn Khaldun (1332-1406) emphasized that moral orientation helps eliminate mutual rivalries, strengthens social solidarity, and opens the door to justice (1955, p.158).[6]

2.1.2 Justice: Pareto Optimality or the Imperative of Balance

Justice can be found in verses 264-265 of Al-BAQARAH, "...Like those who spend their wealth [in the way of Allah] to be seen by the people and believe not in Allah nor in the Last Day. So, their example is like that of a [large] smooth stone upon which is dust and is hit by a downpour that leaves it bare. They are unable [to keep] anything of what they have earned. And Allah does not guide the disbelieving people. And the example of those who spend their wealth seeking means to the approval of Allah and assuring [reward for] themselves is like that of a garden on high ground which is hit by a downpour - so it yields its fruits in double. And [even] if it is not hit by a downpour, then a drizzle [is sufficient]. And Allah, of what you do, is Seeing." Islam makes it clear that efforts to achieve such integration are unlikely to succeed if there is a lack of justice and equity in human interactions. This principle forms the fundamental axiom of the Islamic economic system, whose objective is social justice. It finds its foundations in social relationships and the belief that human beings, as stewards of God on Earth, are brethren. Thus, the Quran indicates that justice is one of the main objectives for which God sent His messengers to humanity, "We have certainly sent Our messengers with clear proofs and revealed with them the Scripture and the balance that the people may maintain [their affairs] in justice" (Quran 57:25)[7]. To the Prophet Mohammed, injustice is equated with "absolute darkness," as injustice undermines solidarity, provokes conflict, exacerbates tensions, and worsens human problems. In line with this commitment to justice and equity, Islam tried to achieve the integration of different economies under its influence during the height of the Muslim civilization. Al-Mawardi (974-1058) argued that complete justice promotes solidarity,

[5] - Loust. H. (1958). "L'action et la pensé politique d'al-Mawardi(974-1058), Revue des études islamiques". P.118-120

[6] - Issawi. C. (1950). "An Arab Philosophy of History : Seletion from the Prolegoman of Ibn Khaldun of Tunis (1332-1406)''. P.158. London.

[7] - Coran , sourate 57 : verset 25.

law, order, national development, wealth expansion, population growth, and national security, and that "there is nothing that destroys the world and the people's conscience more quickly than injustice" (Al-Mawardi, 1955, p.125)[8]. Ibn Khaldun also unequivocally stated that it is possible to progress without justice (Ibn Khaldun, Muqaddimah, p.287). This call for justice demands fairness in labor remuneration, profit distribution, and adheres to a unique concept of fair profit. The latter is permissible as long as it does not cause contractual imbalance. Moreover, this distributive justice must extend to socio-economic justice with all its implications concerning wealth redistribution, capital allocation, and labor allocation.

2.1.3 Respect for Moral Values

The ethical vision of values is closely related to morality, a central question in philosophy from Aristotle to Spinoza to Kant. According to the latter, there is even a universal morality underpinned by guiding principles that can ultimately be summarized by the maxim "do not do unto others what you would not have them do unto you." Spinoza asserts: "We do not desire a thing because it is good, but it is good because we desire it." In contrast to Islamic economics, conventional economics generally considers individual behaviors, tastes, and preferences as given data. However, Islamic economics emphasizes individual and social reform through moral elevation. There are many common points among the economic morals of the three monotheistic religions. Some examples include the sense of collective well-being, advocating solidarity towards the poor, and the condemnation of usury, which is explicitly forbidden in all three religions. Loyalty and honesty are obligatory in contracts. Like Aristotle, time belongs to God and should not be the subject of commercial transactions. Only labor justifies enrichment, as seen in Calvinism studied by Max Weber. Nonetheless, in Islam, the emphasis has been placed more on the community than on the individual. Every economic relationship is as much a pact and a contract between members of the community as it is between them and God. Furthermore, the term "value" also refers to what makes someone worthy of esteem on moral, intellectual, professional, etc., grounds. For Wellhoff (2009, p.9), the theme of values "reconnects us to our deepest identity and our sense of belonging or exclusion from one social group or another... Values appeal to what is intimate in us, referring to the notion of virtue and our adherence to the society to which we contribute." In the following sections, we will see that these ethical and moral considerations are found in the principles of Islamic banks, indicating a certain unity of moral conceptions independent of geography and culture.

2.1.4 The Right to Private Property

Islamic law affirms the relative sovereignty of humans over natural resources. Absolute ownership is limited to God, a principle known as tawhid. While the Quran indeed recognizes the right to private property, it is not absolute and is tempered by the obligation of using natural resources productively. This basic principle aims to discourage hoarding. Thus, the right to private property is primarily a right of enjoyment and potentially transfer of ownership. Economics, as such, is based on a first data of human nature: the need to procure resources for basic subsistence. From this natural data arises a right, the right of man to actively take possession of things in nature, which God has created for him and which He has given him. This does not refer to passive or inert things but to the product of nature's work on itself and of man's work on nature, including what the world generates and what man produces. Each individual, man, and woman, Muslim and non-Muslim, has, by virtue of Sharia, the right to ownership, possession, enjoyment, and transfer of property, a right that must be respected and protected by his peers. In other words, the ownership of property is a recognized right in Islam and must be appreciated by all sectors of society, regardless of belief, color, or race.

[8] - Al mawardi. A. (1955). “Adab al-dunya wa al-Din’’. Mustafa al Saqqa, Editor. Cairo : Mustafa al-Babi al Halabi

2.1.5 Zakat (Almsgiving)

The primary motive behind Zakat is religious and spiritual, with social and economic aspects subordinate to it. Zakat is a form of worship and not a mere tax. In Islam, Zakat or almsgiving is not a voluntary act of charity but rather a mandatory act that every believing Muslim is enjoined to perform, provided they believe in God and the afterlife sincerely. Zakat is one of the most important aspects of the global Islamic economic system and one of the five pillars of Islam. The institution of Zakat is the cornerstone of the Islamic economic system. In the Quran, Zakat is highlighted as an essential component of socio-economic justice. God mentions it more than 100 times. It is often linked to prayer: "Establish prayer and give Zakat" (Al-BAQARAH, verse 10), as two means of purification. An individual must fulfill a debt to God by giving back a portion of what God has created for him before consuming it, regardless of the level of his wealth. This allows the poor to afford life's necessities in a humane and dignified manner, "Alms are intended only for the poor and the needy, and those who are in charge thereof, for those whose hearts are to be reconciled, and to free those in bondage, and to help those burdened with debt, and for expenditure in the way of Allah, and for the wayfarer. This is an obligation from Allah. Allah is All-Knowing, All-Wise" (Quran, Surah 9, verse 60). In essence, Zakat is a divine obligation for communal well-being and not a tax intended to fund state expenses.[9] According to Abdalati Hammudah (1976), "Zakat serves not only to purify the property of the contributor but also to purify his heart of selfishness and the love of wealth. In return, it purifies the heart of the recipient of envy and jealousy, hatred, and unease, and instead, it implants in his heart, goodwill and warm wishes for the contributor. As a result, society as a whole will purify itself and be free from class struggle, suspicion, ill feelings, corruption, and disintegration." Technically, Zakat is a fixed proportion collected from the surplus wealth and income of Muslims. It is based on the notion of continuous circulation of accumulated wealth and the prohibition of hoarding as developed in Islam. Indeed, there are two types of Zakat: Zakat al-mal, which consists of an annual levy of 2.5% on the total value of assets, capital, and profits of the Muslim, and Zakat al-fitr, which is paid by every Muslim at the end of the sacred month of Ramadan. The principles mentioned in the previous paragraph structure the form and content of Islamic finance. Due to their importance, it appears necessary to supplement them with a few other more specifically financial principles.

2.2 Principles of Islamic Finance;

In general, Islamic finance is guided by Islamic values. It adheres to economic and social rules in accordance with Islamic law (Sharia), providing an ethical and profitable model. Islamic finance, unlike conventional finance, operates within both conventional and religious environments governing Mouamalat (Islamic commercial and financial transactions). From these principles, financing techniques that make up Islamic finance are derived. Adherence to Sharia allows for a clear distinction between the operations of Islamic financial institutions and those of other financial institutions. There are both positive and restrictive principles:

In an Islamic financial system, Islamic banks perform the same essential functions as conventional banks but are constrained to conduct their transactions in accordance with the rules of Islamic law. Moreover, the Islamic financial system is based on the following five pillars: prohibition of interest (Riba), prohibition of uncertainty (Gharar), prohibition of illicit sectors (Haram), profit and loss sharing, and the existence of an underlying asset.

[9] - Cummings, J. T., Hussein, A. et Ahmad, M. (1980). “Islam and model Economic change’’, in Islam and Development : Religion and Sociopolitical Change, ed by Esposito, John L. New York: Syracuse University Press. pp.25-47.

2.2.1 Prohibition of interest (Riba)

2.2.1.1 The question of interest in Islam and the Sharia's position:

Etymologically, the Arabic word riba (masculine noun) is mostly translated by Arabic linguists as interest or usury. This term comes from the verb "rabâ & arbâ," which means to increase and grow the value of something from itself. The prohibition of interest is clearly mentioned several times in the Quran. "...That which you put out at interest to increase within the wealth of people does not increase with Allah, but that which you give in zakah desiring the countenance of Allah - those are the multipliers."[10] "And because they took usury while they were forbidden from it. And their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment."[11] "O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful."[12] "...Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, 'Trade is [just] like interest.' But Allah has permitted trade and has forbidden interest." "Allah has made trade lawful and has forbidden interest."[13] "...So, if you repent, yours is your principal. Neither wrong nor be wronged."
By analyzing these verses, we can conclude that the Quran provides :

- A precise definition of usury.
- A distinction between trade and usury.

The possibility of repentance for those who practice usury by abandoning interest and reclaiming only the borrowed capital.
By abolishing Riba or usury, Islam seeks to establish a society based on equity and justice. All Islamic financial institutions established in different countries are based on the principle of prohibiting interest, relying on the verses cited above. However, the concept of riba is not limited to the prohibition of banking interest; it also applies to other commercial transactions involving objects susceptible to riba (mal ribawi). As reported by Muslim, "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, same for same, hand to hand (immediate execution of transactions)." If the items are of different types, the exchange can be conducted without any restriction, provided it is done on a hand-to-hand basis. The hadith also mentions another type of riba called riba al-Fadl, which involves an exchange of unequal quality of goods or specific products of the same kind (gold, silver, currency, certain types of food, etc.) with a surplus. The prohibition of riba al-Fadl aims to eliminate any exploitation through unequal exchanges and to ensure justice.
Despite the existence of several definitions and forms of riba, it appears that the most widespread form of riba in the world today is the one related to loans with interest rates, which Muslim scholars call riba al-Nasî'a. This refers to a surplus or premium charged when settling a debt due to the extended period allowed to the borrower for deferred payment. This practice was prevalent among the Arabs during the pre-Islamic period of ignorance.[14] There is absolutely no difference of opinion among Islamic scholars regarding the prohibition of riba al-nasî'a, and the nature of this prohibition is absolute and unambiguous.[15]

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[10] - Coran, Sourate al-Rum, verset 39
[11] - Coran, sourate al-Nisa : verset161
[12] - Coran, sourate al-Imran : verset 130
[13] - Coran, sourate al-baquara : verset 275
[14] Antérieur à l'Islam
[15] 5Il y a quatre école dans la tradition sunnite à savoir les Malikites, les Hanbalites, les Chafi'ites et les Hanafites. Ce ne sont pas des courants de pensées différents à proprement parler mais ils se distinguent par l'interprétation distincte des textes selon le lieu et l'époque ou ils se sont développés

A) Usury and interest in the prophetic tradition:
In general, the Prophet considers that "every loan that brings an advantage is usury." This demonstrates the Prophet's strict stance on usury, which goes even further by condemning the lenders, those who transcribe the transaction, and the witnesses. "The Messenger of Allah has cursed the one who consumes usury, the one who gives it to others to consume, the one who records it, and the two witnesses. They are all alike."[16] The Prophet Mohammed teaches us that usury is thirty-six times worse than adultery! He said, "Eating a dirham gained through usury knowingly is worse than committing adultery thirty-six times."[17]
Regarding usury in trade, it is entirely based on the notion of advantage, i.e., the inequality of value that can be introduced in exchanges when one party receives an advantage without providing a counterpart. To eradicate this inequality and ensure the equal value of exchanged goods, the Prophet Mohammed called for transactions to be concluded on a cash basis or simultaneously. The concept of immediate exchange occupies a greater importance in many of his narrations and speeches. The obligation of simultaneous exchange, marked by the repetition of the verb "tiens" (hold), remains stable throughout his numerous hadiths concerning the sale of various goods, metals, food products, etc. It is forbidden to sell with unequal exchanges, especially when they involve goods of the same kind; in such cases, exchange is not permissible due to the high risk of usury. It is recommended to sell one of the two goods first and then buy the other with money.
In summary, the obligations and prohibitions in the "sunna" indicate that usury or interest is strictly prohibited, regardless of its form, leaving no room for manipulation or potential misinterpretation to soften the condemnation. Transparency regarding the loaned object, the sold object, and the price paid is an absolute rule. It involves transparency both about the object itself and about the time of the transaction.
B) Prohibition of interest in other monotheistic religions:
From the beginning of humanity until the 15th century, lending money with interest, still referred to as usury with a negative connotation, was condemned and deemed immoral. The earliest experiences of money lending date back to antiquity, especially in societies and civilizations governed by commercial law, such as Rome, Greece, and the Mediterranean region (Boizard M.1986). Antiquity was marked by a moral condemnation of financial activities. Solon[18] , who contributed to the prosperity of Athens, canceled most debts and completely banned many types of loans in his laws. This initiative was imitated five centuries later by Julius Caesar. Secular thinkers considered interest income as immoral. The criticism is also found in the foundational texts of religions.[19]
For Aristotle, money should not be able to breed. This principle is also found in the Hebrew Bible and in the Gospels of Christianity. The Islamic idea that "time belongs to God" indicates that interest cannot be the price of time. From these perspectives, we will present the doctrines that condemn interest rates and see its practice as an immoral act, equating it to organized theft. In a comparative approach, we can observe similarities between the main monotheistic religions concerning the prohibition in the Holy Scriptures and the evolving attitudes of religious authorities toward this prohibition. The opposition to interest in the Muslim religion is similar to that in Judaism. This prohibition is reinforced by many texts from the Old Testament. One passage from Exodus prohibits usurious lending: "If you lend money to any of my people with you who is poor, you shall not be like a moneylender to him, and you shall not exact interest

[16] Sahîh Muslim
[17] Al-Bayhaqî, Shu‘ab al-imân
[18] - Solon est un homme d’Etat, législateur et poète Athénien.
[19] - Hirigoyen, G. (1993). “Quelques réflexions sur le lien entre l’éthique et la finance’’, Droit et Gestion, pp 208- 217, Vuibert, Paris

from him." (lévitique (25-35 à 87),). The Talmud compared the moneylender to a murderer. The Mishnah counted the usurer among those whose testimony in court is not acceptable. No distinction was made between usury and interest. However, later on, Judaism allowed its people to charge interest on transactions with non-Jews. "You may charge a foreigner interest, but you may not charge your fellow Israelite interest, that the Lord your God may bless you in everything you put your hand to."[20]

These considerations provide insight into the extremely cautious and outraged attitude of the Old and New Testaments toward the practice of interest. However, there is no rational and explicit explanation for the prohibition given by the texts. Consequently, Judaism explains this prohibition as a means of promoting charity and a sense of community rather than a way to avoid social injustice. Therefore, we notice from the cited text above that interest-free loans only apply to transactions among Jews, while interest can be charged on operations with non-Jews.

Both Christian and Islamic religions recognize usury as a sin. The words spoken by Jesus Christ in the Sermon on the Mount convey this: "And if you lend to those from whom you expect to receive, what credit is that to you? Even sinners lend to sinners to get back the same amount. But love your enemies, and do good, and lend, expecting nothing in return, and your reward will be great."[21]. Indeed, from the beginning of the Christian era, usury was strictly prohibited, whether in kind or in cash. The early Church fathers viewed interest with severe disapproval. The Greek Church father, Saint Basil (329-379), stated that the rich should lend to the poor without interest. If he lends with interest, he considers the borrower not as a debtor but as a slave, and at the same time, while increasing his wealth, he increases his sins. Later, in 789, during the time of Charlemagne in Aix-la-Chapelle, the prohibition of interest was integrated into civil law. In 1311, the Council of Vienne further intensified the issue by declaring anyone who obstinately maintained that usury was not a sin to be heretical.The Church's attitude later evolved from the prohibition of interest to tolerance. [22]

However, when the Church itself became a holder of property and money, these strict laws against interest were gradually relaxed. The Church gradually changed its view on the prohibition of interest. Eventually, the function of the moneylender became a recognized profession sanctioned by public authorities, subject to particular charges.

In Greek tradition, interest, when not imposed on friends or relatives, was entirely legitimate. However, Aristotle, in his work on politics, severely criticized the practice of interest, affirming that liquid money does not produce more liquid money and describing usurious gain as injustice. He accused it of damaging sound ways of earning money because "Money is not, by nature, a commodity; it is only a symbol… And this symbol is treated as though it were a tangible thing, and a custom is made of this."[23]

Plutarch [24], in his "Treatise on Moral Works," mentioned "greedy usurers who strip poor debtors and devour them to the very marrow of their beaks and claws like famished vultures." Frisotti, guided by natural reason, asserted that "it is absolutely unnatural for money to produce interest."[25]

Despite being prohibited, considered immoral, and contrary to ethical order, lending money with interest was widespread. According to De Roover, R. (1986), unregulated interest-bearing

[20] - Deutéronome 23-19
[21] - Evangile selon Saint-Luc, VI, 34et 35 .Question 78 “le péché d’usure dans les prêts’’
[22] - Hastings J. The Encyclopedia of Religion and Ethics’’, p.550-551.
[23] - Bouckaert, L. (1994). “Intrest en cultuur,een ethiek van het geld’’, Editions Acco,louvain, p.66
[24] - Plutarque (46-120), biographe et moraliste grec, auteur des Vies parallèles .
[25] - Boulif, M. (1984). “les institutions bancaire islamiques, l’alternative islamique au crédit bancaire à l’intérêt”, Mémoire de licence, Faculté Universitaire Catholique de Mons, p.12

loans had become customary among the Greeks: "Bold travelers, astute speculators, skillful and cunning people who earned considerable profits from money."

2.2.2 Principle of Profit and Loss Sharing

The management of risk traditionally revolves around two main axes: its evaluation in terms of risk-security distribution and its negotiability between economic agents in the capital market, ensuring the immediate liquidity needs of these agents are met. In a system of profit and loss sharing, uncertainty, particularly ever-present and threatening, demands a distribution of results among partners in proportion to the risk borne by each. The notion of sharing is a key element in Islamic finance as it reflects the values of Islam, namely justice, social equality, and brotherhood. According to Sharia rules, no one can claim any remuneration without sharing the risks associated with investment (Al-ghounm bi al-ghourm).

Following this principle, the process of profit and loss sharing (3P) has been designed, wherein parties to a financial operation must equitably share gains and risks among stakeholders regardless of the type of contract used. Thus, the funder is in the same position as the entrepreneur, both in sharing the profits generated by the project and in taking risks. The principle of profit and loss sharing is widely accepted in Islamic legal and economic literature as the cornerstone of Islamic finance (B.S. Chong and M.-H. Liu, 2009). This system is defined by R.S. Khan (1984) as a financial mechanism that links financial capital to industry and commerce without using interest rates. According to the OECD observer (2009), "Justice and fairness are perhaps the most important principles of Islamic finance. Profits and losses must be shared between creditors and debtors, rather than concentrated on one side, as is often the case with banks in the OECD region."

The profit and loss sharing paradigm constitutes the cornerstone of the Islamic financial system, operating at the level of the bank's liabilities and assets. At the resource level, investment accounts are found, which constitute an important financial resource for Islamic banks. Their modes of operation are entirely in accordance with Sharia principles as they are based on the principle of profit and loss sharing and involve both labor and capital factors.[26]

At the level of Islamic banks' assets, Sharia has established two types of direct financing: Moucharaka and Moudaraba[27], which are funded by the bank's resources and also based on the 3P principle. In Islamic banking intermediation, assets and liabilities are integrated, as entrepreneurs share profits and losses with the Islamic bank, which, in turn, shares profits and losses with depositors (B.S. Chong and M.-H. Liu, 2009). In this structure, the Islamic bank can simultaneously play the role of an investor and an entrepreneur. On the liability side, as Moudarib, it manages deposits entrusted to it by its clients. On the asset side, as Rab. Al Mal, it makes the funds thus collected available to other investors (E. Jouini, 2008). Islamic banks are thus structured around the principle of risk sharing, encompassing funding sources, mainly deposits, and also applying to the allocation of funds (N.M. Ariffin, S. Archer, and Karim R.A. Abdel, 2008). From their investment financing modes, Islamic banks are better positioned to absorb external shocks since losses related to banking financing are partially absorbed by depositors (M.S. Khan and A. Mirakhor, 1989, Z. Iqbal, 1997). Similarly, the principle of PLS (profit and loss sharing) allows Islamic banks to finance long-term projects with higher risk-return profiles and thus promote economic growth (M.U. Chapra, 1992, P.S. Mills and J.R. Presley, 1999). Furthermore, some Muslim economists (ABBASSI, M.A (1969), Mahfouz, M (1980)) believe that the application of the profit and loss sharing principle could not only serve to grant new loans (for example, in the spirit of loans to developing countries remunerated based

[26] - Pour plus de détail sur ce type de comptes voir la partie consacrée aux ressources des banques islamiques.

[27] - Pour plus d’explication voir la section 2 : Les principaux modes de financement bancaires islamiques

on a percentage of export revenues) but should also facilitate, even encourage, the negotiation of existing debt in all areas.

According to Al-Jarhi and Iqbal (2002), the use of profit and loss sharing contracts offers several advantages:

Allocating financial resources based on the profit and loss sharing principle places more emphasis on project profitability, while an interest-based system focuses only on the solvency of debtors. Therefore, allocation based on profitability can be expected to be much more effective than allocation based on interest.

A profit-sharing system is much more stable than a system based on a fixed interest rate on capital. In the latter system, the bank is obliged to pay a fixed amount on deposit accounts, regardless of their use, even if economic conditions deteriorate. In contrast, in the profit-sharing system, the income paid on the bank's obligations depends directly on the overall outcome of its investment portfolio. Consequently, the cost of capital will automatically adjust by adapting to changes in production conditions. Additionally, any shock affecting the balance sheet liability will be automatically absorbed. This flexibility not only prevents the failure of businesses seeking financing but also ensures a certain harmony between the company's cash flow and the repayment of its debts, which constitutes a factor of stability in the financial system.

Wealth is created based on investment opportunities in the real sector of the economy.

Real factors related to the production of goods and services (in contrast to financial factors) become the main elements of forming the rates of return in the financial sector.

Transforming the interest-based system into a system based on the principle of sharing profits and losses helps achieve the objectives of economic growth because it leads to an increase in the supply of risk capital. This encourages entrepreneurs to invest in the production sector since fund providers take their share of the risk.

2.2.3 Information Asymmetry and Uncertainty (Gharar)

Risk-taking is not prohibited in Islam; in fact, it is encouraged as, in the absence of interest rates, it is the only recognized source of profitability. However, uncertainty (maysir) and information asymmetry (gharar) in the clauses of a contract are prohibited, as they can lead to uncertainty about the subject of the contract and speculation. Consequently, any contract subject to conjectures is completely null and void and cannot produce effects between stakeholders, as it contradicts the rules of Islamic law, preventing the illicit acquisition of gain.

In the context of socio-economic exchanges, gharar signifies a lack of transparency in a contract. It occurs when the subject of a contract is uncertain, dependent on uncontrollable events. This is why insurance contracts offered by conventional banks are deemed illicit by Muslim scholars. Therefore, Islamic insurance contracts known as takafol have been created.

The prohibition of speculation (maysir) concerns all activities tainted by uncertainty, which includes derivative products such as options, futures, and forward contracts. The principle of forward and future contracts implies that their subject does not exist at the time the transaction is executed.

Complying with this prohibition allows the Islamic bank to reduce market risk on its financial assets and allocate its financial resources to long-term real assets. In Islamic law, there are validity conditions for a transaction that link Islamic finance to the real economy and limit the possibility of excessive speculation. These conditions are fourfold: legality, existence, delivery, and precision in definition.

2.2.4 The Principle of Asset Backing in Relation to Transactions

For centuries, Islamic economists have studied the role of money in the economic sphere. This role attributed to money in Islam is very well explained. The main idea is that money does not possess intrinsic value. Some Islamic economists consider money as an intermediary between assets, acting only as a mirror that reflects the value of a commodity. It was created to be a measure of value and a medium of exchange but not an object in itself. Similarly, money should not be created just because its existence will encourage demand for it, but rather to acquire other goods. Iqbal and Mirakhour (2007), for example, emphasize that money is only potential capital and becomes real only after being associated with other natural resources such as creative labor and effort. Thus, any Islamic financial transaction must be based on an identifiable tangible asset, i.e., real goods, rather than on swap contracts or a monetary mass that is not known. Islamic finance thus encourages investors to engage in the real and productive economy.

2.2.5 The Prohibition of Unlawful Assets (Haram)

Islamic finance adheres not only to the prohibition of interest and any harmful speculation fueled by credit not backed by tangible assets and moral hazard but also to a responsibility towards stakeholders. It excludes certain industries from its investment domain and, therefore, involves ethical, social, and environmental filters. It is essential to note that this type of responsible investment already exists in the Anglo-Saxon world, where assets of companies whose products do not adhere to the rules advocated by the fund are excluded. These exclusions encompass:

Financial institutions based on Riba (interest) or Gharar (uncertainty): this includes all conventional banks, brokerage firms, leasing companies, and insurance companies.

Trading in certain sectors of activity (alcoholic beverages, gambling, pork and entertainment activities), as well as armament and defense, which includes all activities that promote war.

2.2.6 The Economic Justification of the Prohibition of Interest

The abolition of interest plays a crucial role in Islamic economic activity. The economic reasons justifying the prohibition of interest are still put forth by Muslim economic authors today (see taqi ousmani 2004). The practice of interest is believed to promote inflation and lead to a misallocation of resources. It is also suggested that in the traditional financial system, available funds are allocated to borrowers with financial guarantees and may not necessarily benefit profitable investment projects that promote individual and societal well-being (Mannan, M. & Abdul, 1980). Profitability, according to Muslim experts, consists of a positive and non-negotiable contribution to society and should not be solely based on market judgments to ensure resource allocation. It is recommended to seek a fair social surplus rather than profit maximization. Engaging in interest-based practices is believed to discourage economic activity and reduce the supply of risk capital, leading to higher commodity costs (Nakhjavani Mehran 1982).

Another rationale has been developed to replace practices based on the use of interest rates. Rather than financing loans, it proposes that lenders participate with borrowers in both the profits and losses of a tangible asset. In these conditions, capital providers can only share in profit if they have accepted to bear a part of the risk of variable profit or even a loss. "There is no justification that could compel an entrepreneur to pay interest if they have not received any positive return on the invested money. To say otherwise, as is prevalent in the interest-based system, requires financial capital to be considered as capable of generating value, but this is not the case. Value is a market phenomenon and not an intrinsic property of financial capital".[28]

Furthermore, the prohibition of interest rates is logically rooted in the perception that Islamic doctrine has of the function of money in an economy. Islamic economists are unanimous that money is a simple instrument necessary to create the value of goods and should not be desired for its own sake. Al-Ghazali emphasizes, "He who engages in interest denies the blessing of God, and this is unjust because gold and silver were created to facilitate exchanges and cannot

[28] - Siddiki, M.N., Issu in islamic baking, Editions The Islamic Foundation,Leicester,1983,p.72

be assimilated to commodities... They are like a mirror, which has no color and reflects them all."[29]

Case study:

The first Islamic bank in Algeria is Al Baraka Bank in 1991, and its operations are still restricted (Benamraoui, 2008). Yet, across time, the number of borrowers and savers began steadily augmented in it. According to Abdulkarim Ahmed Guendouz and Sofiene (2020), Algerian banks have expanded their divisions. Because Islamic banking products and transactions do not violate Algerian law, the legislation on credit and money allows them to be used in financing. Besides, Abdulkarim Ahmed Guendouz and Sofiene (2020) stated that the market share of Islamic banking from the total private banking sector in Algeria is 14% (12% refers to Al Baraka Bank and 2% refers to Salam Bank).[30]

since Algeria has an enormous Muslim population percentage like Malaysia, the underground in Algeria is suitable for adopting Islamic finance to achieve financial inclusion and to learn from the Malaysian experience concerning the contribution of Islamic finance in achieving financial inclusion.

1- The Malaysian banking systems

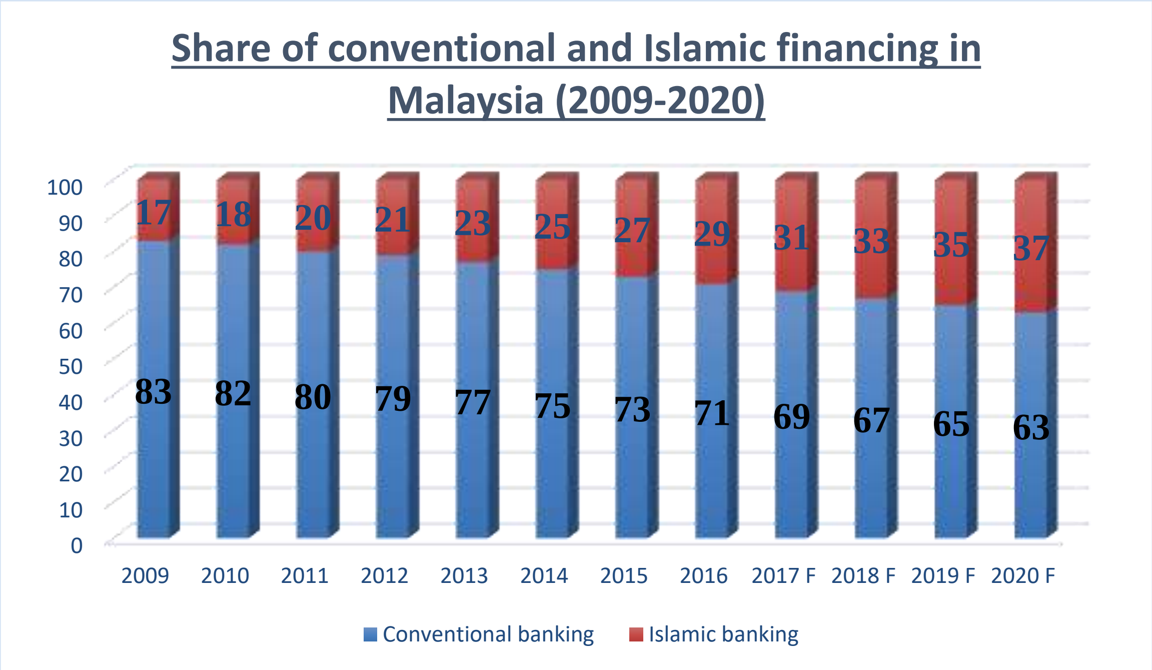
The Malaysian political economy incorporates a very unique Islamic dimension, resulting from the voluntarism of the State, whose social and political drivers (nationalism, social cohesion, diplomacy) must be underlined,

Malaysia launched the world's first issuance of a green Islamic bond (“green sukuk”) at the end of June 2017, demonstrating the country's capacity for innovation in this rapidly growing field (+17% per year since 2009). Islamic finance is mainly distinguished from conventional finance by the application of the principle of risk sharing (therefore profits or losses) in order to ensure justice and economic equity in accordance with Islamic law (Shariah). This prohibits the payment of interest. If global Islamic finance still represents only a small amount (1.3%) of all global financial assets, Malaysia is the leader, with Saudi Arabia and Iran. This leadership, stimulated by public authorities, could enable Malaysia to become a global hub for Islamic finance.[31]

[29] - Imam al Ghazali (451-505H/1055) .Ces points de vue analytiques ont enrichi la littérature économique islamique sur des sujets tels que la division du travail, l’évolution de la monnaie et la façon d’organiser la société pour prévenir la nécessité.

[30] - M.A. Ledhem, “ Role of Islamic finance on enhancing financial inclusion: Recommended lessons for Algeria from the Malaysian experiment”, University Centre of Maghnia,2022,p644;645.

[31] - https://www.tresor.economie.gouv.fr/Pays/MY/la-finance-islamique-en-malaisie#:~:text=Aujourd'hui%2C%2016%20%C3%A9tablissements%20bancaires,comptent%20parmi%20les%20principaux. Consulted in 18/12/2023



Source: *annual reports, BNM, DBS Bank, AllianceDBS*

In its 2016-2020 five-year plan, the Malaysian government set 4 key objectives for the Islamic finance industry:

a) increase the market share of Islamic financial assets from 8% to 13% (support specialized Malaysian funds)

b) increase the share of Malaysian insurers in the takaful market

c) achieve 40% Islamic financing in Malaysia in 2020

d) rank a Malaysian financial institution among the top 10 global players.

The ambition is also, subject to the harmonization of the normative interpretation of Shariah principles, to extend the know-how of Malaysian Islamic establishments to other markets and other actors. At the end of 2015, Malaysian banks had already issued 32 sukuks in foreign currencies (USD, CNY, JPY, SGD) on behalf of Malaysian and foreign issuers, equivalent to a total of 21.3 billion USD (BNM). Malaysian Islamic banks are positioning themselves in growing markets, in particular neighboring Indonesia, the leading country in the world in terms of the number of inhabitants of the Muslim faith.

2- **The difference between the Malaysian and Algerian banking systems**.

In Malaysia :

1. **Early Development:** The development of the Islamic financial system in Malaysia began in the 1980s, and the first Islamic bank was established in 1983.
2. **Regulatory Oversight:** Malaysia's central bank, Bank Negara Malaysia, oversees the Islamic financial sector, ensuring compliance with Shariah principles.
3. **Product Diversity:** The Islamic financial system in Malaysia offers a wide range of products and services, including Sukuk (Islamic bonds), participation-based financing, and Islamic investment funds.

4. **Education Hub:** Malaysia is considered a global hub for education in Islamic finance.

In Algeria

1. **Recent Development:** The development of the Islamic financial system in Algeria started more recently, and Islamic banks were established in the last decade.
2. **Regulatory Oversight:** The Islamic banking sector in Algeria is overseen by the central bank.
3. **Challenges:** The Islamic banking system in Algeria faces challenges such as providing diverse Islamic financial products and keeping up with global developments.
4. **Slow Expansion:** Despite increasing interest, the Islamic banking sector in Algeria is still facing challenges in terms of expansion and development

Table 1. Islamic finance and financial inclusion in Malaysia and Algeria

Religiosity and Financial Inclusion			***Islamic Financial Institution (IFIs)***					
Economy	**Religiosity (%)**	**Account at a formal financial institution (% age 15+)**	**Adults with no account due to religious reasons (% age 15+)**	**Adults with no account due to religious reasons (Thousands, age 15+)**	**Number of IFIs**	**Islamic assets per adult ($)**	**Number of IFIs per 10 million adults**	**Number of IFIs per 10,000 km**
Malaysia	96	66.2	0.1	8	34	4949	16.8	1.03
Algeria	95	33.3	7.6	1330	2	-	0.8	0.01

Source: (Islamic Financial Services Board, 2020)

Notes:
* Adults Number and percentage that point to a religious reason for not having an account at financial institutions
* Islamic assets per adult ($)
* Size of Islamic finance assets in the financial sector of an economy per its adult population.

Table 2. Financial Inclusion Metrics

Country	***Have an Account (%)***	***Wages Paid into Account or Card (%)***	***Wages Paid into Account or Card, Among Wage Earners (%)***	***Saved at a Financial Institution (%)***	***Have a Debit Card (%)***	***"Have a Credit Card" (%)***	***Used a Debit or Credit Card" (%)***	***Used a Debit or Credit Card" (%)***	***Have an Account and Made no Deposits (%)***
Malaysia	85	28	72	38	74	31	39	23	16
Algeria	43	8	46	11	20	3	5	5	14

Source: (World Bank, 2020)

Tables 1, 2 show that Malaysia has achieved a high level of financial inclusion, according to the World Bank' report (2020), it is the most country that success in enhancing financial inclusion based on the Islamic finance industry, it can be shown ;[32]

- Malaysia has 66.2% of the total population who are above the age of 15 has an account at the financial institution
- Algeria has only 33.3%. Although Malaysia (96%) and Algeria (95%) have almost an equal level of religiosity among the population, the level of adults who has no financial account due to religious how that Malaysia has achieved a high level of financial inclusion, according to the World Bank' report (2020), it is the most country that success in enhancing financial inclusion based on the Islamic finance industry, it can be shown

- **in Table 1**:
  - that Malaysia 66.2% of the total population who are above the age of 15 has an account at the financial institutions, wherein Algeria has only 33.3%. Although Malaysia (96%) and Algeria (95%) have almost an equal level of religiosity among the population, the level of adults who has no financial account due to religious reasons
  - in Algeria is so high (7.6%) compared to Malaysia (0.1%), which makes Algeria has a shortage in the financial inclusion.

Regarding the financial inclusion based on the Islamic finance sector Malaysia has 34 Islamic financial institutions with 4949$ assets for one adult while Algeria has only 2 Islamic financial institutions with no assets for one adult. This reflects that Islamic finance in Algeria does not contribute to expanding financial inclusion.

Malaysia has been a pioneer in the early and comprehensive development of the Islamic financial system, while Algeria is in the process of establishing and expanding its Islamic banking sector, facing challenges in catching up with global trends.

Conclusion

In conclusion, after conducting this study, we can assert that while conventional and Islamic finance share the same ultimate goal of mobilizing financial resources and allocating them among different investment projects, they are based on different principles.

In conventional finance, the norm that guides economic agents' decisions is the optimization of the risk-return trade-off in their investments. Profitability is the primary criterion for decision-making for conventional operators. On the other hand, Islamic finance is governed by the rules of Sharia (Islamic Law) that are derived from several sources: the Quran, the Sunnah, Qiyas, Ijtihad, and Ijma. Economic activities of Muslims, along with their political and social activities, must comply with these norms. Hence, an Islamic financial system, while integrating profitability and efficiency objectives, must also adhere to all ethical principles of Sharia. Islamic finance is not a system based solely on prohibitions and restrictions. Contrary to certain misconceptions, it is a framework built around some major positive principles and a few

[32] - M.A. Ledhem, " Role of Islamic finance on enhancing financial inclusion: Recommended lessons for Algeria from the Malaysian experiment", University Centre of Maghnia,2022,P646.

prohibitions. This particularity is the basis for the main distinctions between conventional and Islamic economies.
Unlike the secular market paradigm built around the assumption of maximizing individual utility (often reducing consumption), optimal behavior in the Islamic economy requires a balanced satisfaction of both material and spiritual needs of human beings. Islamic finance thus redefines economic rationality to consider the general interest in addition to individual interest. This observation highlights the convergences and divergences between Islamic finance and conventional finance. Both the philosophy of Islam and liberal philosophy encourage entrepreneurship and trade, allow risk-taking, and endorse profit. While certain forms of trade (money trading) or profit (interest) are prohibited, these prohibitions are exceptions, not the rule. Nevertheless, Islamic finance has a unique perspective on risk and profit-sharing between different stakeholders in a financial transaction.
Sharia advocates an "equitable" sharing of gains and risks between the investor (the lender) and the entrepreneur, regardless of the form of financing used. A financial transaction that transfers all risks of an investment project to only one party is contrary to Sharia principles. As a result, some forms of financing from the conventional financial system are entirely in line with the spirit of Sharia and can be applied in an Islamic financial system, while others, particularly the conventional debt contract, are automatically excluded.
The immediate consequences of this divergence in vision between Islamic finance and conventional finance are the specific principles of Islamic finance. It emphasizes a more equitable distribution of risks and rewards and is designed to ensure that financial transactions adhere to ethical and moral standards. This approach to finance seeks to create a more inclusive and socially responsible economic system, aligning with the principles of justice, equality, and social welfare as prescribed by Sharia.

Finally, Malaysia has successfully integrated Islamic finance into its financial landscape, becoming a leading global player in the Islamic finance industry. The government's commitment to a robust regulatory framework and the development of innovative Islamic financial products has contributed to the sector's growth and recognition on the international stage.

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