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ISLAMIC ECONOMY

Its banking and financing instruments

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ABSTRACT

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<p>Every country sets up their own rules and regulations to settle their socio-economic issues or how they allocate their resources among the people. This is called economic system. Countries mainly follow four major economic systems. Capitalism, socialism, Islamic economic system and mixed economy. Banking and financing are the parts and parcels of any economy. Every economy has its own rules, regulations and norms to control its banking and financing system. This thesis is focused on Islamic economic system, its banking and its financing instruments.</p> <p>Islam was introduced to the world 1400 years ago. Muslim people believe that their Holy book of Quran is the complete guidance of every aspect of the life even their socio-economic activities. Muslim people follow Shariah laws which are derived from the holy book and teaching of Prophet Mohammad. Islamic economic system is a set of guidance complying with Shariah laws to perform any financial activities in a country. As Islam was first introduced in Arab lands so Islamic economy is mostly followed by Arab countries. After 1960 this age-old economic system started to flourish from Arab lands to rest of the world. Being modernized Islamic economic products already established an influential market in Asia. Slowly and steadily Islamic banking and financing products are taking attractions of Europeans and going to be a strong alternative of traditional banking and financing.</p> <p>Islamic economy is unique in nature as it has some strong principles to follow. Avoiding interest is most influential. Whereas other two economic systems have interest-based banking and financing system, Islamic banking and financing is completely opposite. It deals with money but avoids interests and offers profit and loss sharing financing. This system doesn't allow gambling in business. It prohibits investing in alcohol, pork, pornography etc. Like all these restrictions there are so many ethics and moral issues in Islamic finance. Islamic banking has unique financing products such as sukuk, takaful insurance etc. Islamic finance is flourishing, and it has good potentials but still in Europe it is still far behind in competition with traditional banking system. People are ignorant on this issue. This thesis will enlighten them and introduce all the Islamic financing and banking and products. I will describe the future of Islamic banking and its financing product in Finland in the last part of the thesis with some analytical data which I got through a quantitative research on local people of different age, professions, religion.</p>		

ABSTRACT

Key words

Banking, Competition, Economy, Finance, Financing instruments, Interest, Islam, Investment, Risk management, etc.

CONCEPT DEFINITIONS

IMF = International Monetary Fund.

IFSB= Islamic Financial Service Board.

EY= Earnest and Young.

Shariah Law = Islamic law.

Equities = Share, Ownerships

IAIB= International Association of Islamic Banks

IDB= Islamic Development Bank

ABSTRACT
CONCEPT DEFINITIONS

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1 INTRODUCTION

Banking and financing both are linked to each other indissolubly. Financing is one of the main tasks of any bank. Bank and its financing systems are also much influenced by its client's faith, norms of society and culture. The main tasks of every bank are same as collecting money and giving loan to borrowers in exchange of interests. "Interest" is the main income of banks. From the ancient Roman banks to modern banks till now everyone has the same main practice. But "Islamic Banking" system has brought a change in this practice of collecting and financing money. In Islam taking or giving interest is completely prohibited which is mentioned in holy book of Islam.

In this current world economy Islamic banking and financing system has brought a new era. Unique ideology, banking and financing procedures have made this system different from traditional banking system. Over 200 Islamic banks and 250 mutual funds are participating now in global economy. In Arab world and Asia this financing system is already established in many countries. Islamic banking is now getting popularity in the UK, the USA and Europe. In Britain there are already 6 Islamic banks and over 20 lending companies who are offering Islamic finance. Even some traditional banks are now offering Islamic financing facilities for their customers. Practicing Muslims of many non-Muslim countries are refusing to use traditional finance products as those are related to interest. As more and more Muslim immigrants are entering Europe and the USA, banks and financial institutes are trying to get these potential customers by offering Islamic financing facilities.

As this financing system offers comparatively risk adverse investment non-Muslim customers are also showing interests. But this is very new practice for these traditional banks and overall economic systems. This is the high time to get involved to this banking system besides traditional one and get ready to cope with the changes which are coming so fast.

This thesis is commissioned by Mr. Mohammad Sazzad Jahid Khan. He is working as senior assistant vice president of foreign exchange department of Social Islami Bank Limited of Bangladesh. This second-generation bank is very renowned Islamic bank in Bangladesh for their Islamic shariah based products and services. This bank offers most up to date banking services by opening various deposit and investment accounts.

Through this research the author will describe conventional and Islamic banking system, principles of Islamic financing system. The author will show the differences and similarities in between traditional and Islamic financing systems. The Author will cover all these in the first part of the thesis. In the second part, the author will focus on Islamic financing tools and how these instruments work.

The aim of this research is to bring this unknown Islamic banking and financing system to light. Introducing its financing instruments and characteristics.

The objective of this research is to find out the possible chances of Islamic finance in Finland and what kind of challenges Islamic financing may face.

2 ECONOMY

Origin of the word “Economy” is from a Greek word “Okionomia”. Okionoma is combination of two word “Okios” which means “house” and another word is “Nemein” means “a law”. So, the word “Okionomia” means household management law or rules. In ancient Greece economy was considered as a science of managing household issues. Famous Greek philosopher Aristotle described economy as a science of asset management or the household management. Economy is a dynamic issue. It is changing every time complying with the society. There is no unanimously agreed definition of economy, but many scholars and economists tried to describe economy in their own way. Famous Scottish economist and father of capitalism Adam Smith defined economy and he said, “Economics is a science which inquiries into the nature and cause of wealth of nation”. (Chappelow 2019.)

British economist Alfred Marshal describes economy as a science. He says, “Economics is a science which studies man in the ordinary business of life” (Marshal 1920.). Sir Alexander Cairncross compared economy with social science and he said that, “Economy is a social science studying how people attempt to accommodate scarcity to their wants and how their attempts interact through exchange”. (Cairncross & Sinclair 1944.)

In fact, no one in this society is self-dependent. We are dependent on each other. It is true about a country as well. No country can say they are self-dependent. There are many influential issues like demand, ability, power, variation of assets, availability etc. which accelerate economic activities in a society. There is always someone to meet up the scarcity of one in a society. These all issues are the parts of economics. Economics is the reflection of social life. Finding out the fundamental reason of financial crisis of a society and its solution is the prime goal of economics. Economics always keep trying to find the new ways of using resources to the meet up the endless growing demands of the people of a society. Economics sets up the human’s financial activities like producing, allocation or consumption of resources. (Rizza 2016.)

By nature, human being has social instinct. Economics is like applied social science. Economy of a society or a country got influenced by the logical behave and activities of its people. People earn, people works, people expends, people save from the earnings etc. are the economical behaviors of human being. Economics explains these behaviors in a neutral and realistic way. No society has endless resource, but they have endless demand. It is the duty of economics to build up a system of using this limited resource

and maximizing the output to fulfill the financial demand of the society. Economy is dynamic system. To keep running this system it is very important to maintain the economical tools like money, tax, loan etc. in an arranged way. (Rizza 2016.)

In our daily life economics has a great influence. From the beginning of a country government takes care of the economic activities of the country. As a result, economy has a significant impact on society. Economy covers every aspects of human life. The economic structure of a society always been built following any certain ideology. In our present world we can find three kinds of economic system running. Some countries follow socialism, some believe in capitalism and some are comfortable in Islamic economic system. We might find also some countries who has taken both capitalism and Islamic economics partially and following a moderate mix economical establishment. If we look at the history of the civilization, capitalism and socialism both are the most influential economic system. (Bryan 2013.)

2.1 Common economic systems

Capitalism economic system is also called market economy system. Some countries like United States of America, Japan, Germany, Canada etc. are most capitalist country. Capitalism is an economic concept where market is free for everyone. It inspires privately owned companies and owner are free to take decisions regarding productions, pricing and making profits. Government has very less control over the actions of privately-owned companies. Monopoly, high profit motive and high competition are very common in this kind of practice of economy. Owners of the private company get complete rights to set the price and consumers also get rights to choose their products. Capitalism inspires globalization. Capitalism generates many good things for the society like globalizing market, giving customers more choice, creating competitive market which helps to get better products etc. Capitalism has severe drawbacks as well. Capitalism creates class conflict. Rich people become richer and poor become poorer so that power being held to the top people of the capitalist chain. High chance of monopoly creates unrest in the society. It encourages high interest investment. (Fulcher 2004.)

Socialism is just opposite of Capitalism. Socialism was invented to demolish uneven difference between rich and poor from the society. It's a concept of economy where government is the custody of all wealth of the country. Every citizen of a country must be given equal share of this wealth by the government. Government has the supreme power over manufacturing, pricing and even distribution of goods. Government is solely responsible for planning of economy of a country. People get strong social welfare and

safety. Though it looks socialism is a fair economic system than capitalism, but it also creates much severe trouble for the society as government got supreme authority. This economic system might encourage tyranny. There is no authority to control government. People are deprived of freedom of speech and choice. Lack of good governance might cause of uneven allocation of the wealth and eventually that causes unrest in the society. China, Cuba, Laos, Vietnam etc. countries are following socialism economy. (Busky 2000.)

Mixed economy is an economic system which is combined by the features for both socialism and capitalism. It is also called as dual economy. In this economical system means of productions are shared between both public sectors and private sectors. Practice of private and public partnership business is very common in this economy which is opposite of other two economic systems. Mixed economy has active government support and directions but still people can make their own decisions. In this economy there are still chances of monopoly like capitalism but as government monitors closely. Presences of fare competition keeps the prices low. This is the most effective economy for allocating resources and getting goods or services. Practice of mixed economy ensures the fair and betterment policies for both customers and workers. Government charges tax which reduces the incentives of working hard and making profits but also provides various services in education, health and social welfares which ensures equality in society. Most of modern countries are now following mixed economy. Russia, Sweden, France, Brazil, Mexico etc. countries are the examples of mixed economy. (Young 2016.)

2.2 Islamic economy

Both socialism and capitalism systems have criticism in against and got modification many times as they couldn't fulfill the demand of the mass people. Though they frustrate people but still running in the world. People are always looking for alternative economic system. In recent time, Islamic economics system has emerged rapidly with great potential. People are taking this an alternative form of economy. Though it seems a new concept but from the beginning of the civilization this system was running in a very little range. Among few Muslim countries this economics system was practiced. (Chapra 2001.)

Financial structure of a society is greatly influenced by the norm, belief and behaviors of the inhabitants of the society. Islam is the second largest religion in the world having 22% of the world population who believe in Islam. According to PEW research center at present there are 50 countries in the world who has the majority Muslim populations. Islam is a 1400 years old religion and belief in the world. Once,

half of the world was under the ruling of Muslim governance. Muslims believe “Islam” is the complete code of life. Islam has unique social economic lifestyle. Prophet Mohammad (PBUH) taught his companions how to lead the social economic life according to the rules and regulations given by Allah. Even though Islamic economic system is 1400 years old, but it is still so dynamic and strong economics system that till now its running with a tremendous flow. Islamic economy is conducted by the guidance of Holy Quran and sunnah of Prophet Mohamamd (PBUH) It is a social economic arrangement where solution of economic problems is reviewed and solved with Islamic conceptions. According to Islam only Allah owns everything. Every wealth and property belong to Allah and men are the trustee of this wealth. Interest is completely prohibited in Islamic economy. Islam discourage interest and encourage profit or loss sharing in business. Hoarding of any means of wealth is condemned in Islam. To keep the financial equality of rich and poor Islamic economic has introduced mandatory charity system called “Zakat”. Every year wealthy Muslims must pay 2.5% of their net wealth to the poor people of the society. (Pew research 2011; Umer 2014.)

Economist Dr. M. Umar Chapra said, “Islamic economics is that branch of knowledge which helps to realize human wellbeing through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macro-economic and ecological imbalances”. (Chapra 2001.)

Famous Pakistani economist Dr.S.M.Hasanuzzaman says, “Islamic economics is a knowledge and application of injunctions and rules of the Shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society”. (Hasanuzzaman 2007.)

Dr. Abdul Rahman Yusri, Professor of Alexandria University, Egypt has written a book named “A Methodological Approach to Islamic Economics: Its philosophy”. In this book he said, “Islamic economics is the science that studies the possible use of all available economic resorts, endowed by Allah, for the production of maximum possible output of halal goods and services that are needed for the community now and in future and the just distribution of this output within the framework of shariah and its intents”. (Ahmed 2002.)

There are many Muslim and Non-Muslim countries across the world who follow capitalism or socialism. Some also follow a mixed economy. Market economic system encourages to build up a debt management process backing with high interest. On the other hand, socialism invites autocracy. Islamic economic is unanimous financial structure for a society. Though principles of this economy comply with strict shariah laws, but it helps to keep the balance of social economic environment of a country.

2.2.1 Difference between conventional economy and Islamic economy

TABLE 1. Difference between Islamic economy and conventional economy (Cohen SI 2017).

Issues	Conventional economy (Socialism and Capitalism)	Islamic economy
Source	From the philosophy of human mind.	Quran and sunnah of Prophet Mohammad (PBUH)
Religious belief	Socialism encourage secularism and in capitalism religious belief is not influential.	Belief in God and relates this in social economic life of human being.
Ownership	In socialism state is the owner of wealth of the country but capitalism believes in individual ownership.	Only God is the owner of all wealth and men are the custody of this wealth.
Competition	No competition in socialism but there is uneven competition in capitalism which creates monopoly.	Presence of competition in a fair and logical way. Competition controlled by shariah.
Wealth distribution	In socialism it is equal but in capitalism, it's not equal.	Impartial wealth distribution.
Interest	Present in both system	Interest is completely prohibited.
Exchange system	Determined by market forces	Guided by Islamic ethics.
Money motive	Money is considered itself as a commodity besides a medium of exchange. Money therefore can be sold higher than its face value.	Money is considered as only a medium of exchange.

2.2.2 Islamic shariah law

Shariah is a set of rules and regulations which guides and regulates the life of a Muslim. These are the principles of Islam which should be followed by a Muslim. Muslim people believe that Islam is the complete way of life. This shariah law covers all features of a human life like his morality, intelligence, education, political, economic thoughts etc. It is the divine guidance from almighty. The Holy Quran is considered by Muslim believers as words of God was the revelation to Prophet Mohammad (PBUH). The Holy Quran is the main source of shariah law. (Bassiouni 2012.) Prophet Mohammad (PBUH) was the interpreter of The Holy Quran to the believers. His sayings and way of actions is called "Hadith" which is the secondary source of shariah law. Habitual practice of prophet is called "Sunnah" which is also an important source of Islamic laws. Law is given by almighty, but it is applied by the human beings. Prophet Mohammad (PBUH) was the God selected interpreter and everything was perfect but after his death many new issues arose which hadn't any clear judgement from Quran, hadith or sunnah. Interpretation and judgements were done by different scholars regarding those issues sometime differs to each other. It created controversy. To solve these issues religious scholars sat together and find the best way of solutions regarding each issue using their knowledge of Islam, Quran, hadith and Sunnah. This is called "Ijma". Till this time Ijma is going on through the Islamic scholars. "Qiyas" is another source of shariah law which can be simply described as the deductive analogy by Muslim scholars. Qiyas develops the existing law of Quran and Sunnah but not overruled the existing rule. The final source of shariah is "Ijtihad" which is the independent judgement of jury. If any circumstances arise where jury can't find the solution from Quran, sunnah, ijma or qiyas then jurist has the right to use his mental effort and find the best solution on regarding issue. It is the process of deriving the laws of shariah from its sources. Ijtihad must be done by a jury who has knowledge over Islamic law. (Huda 2018.)

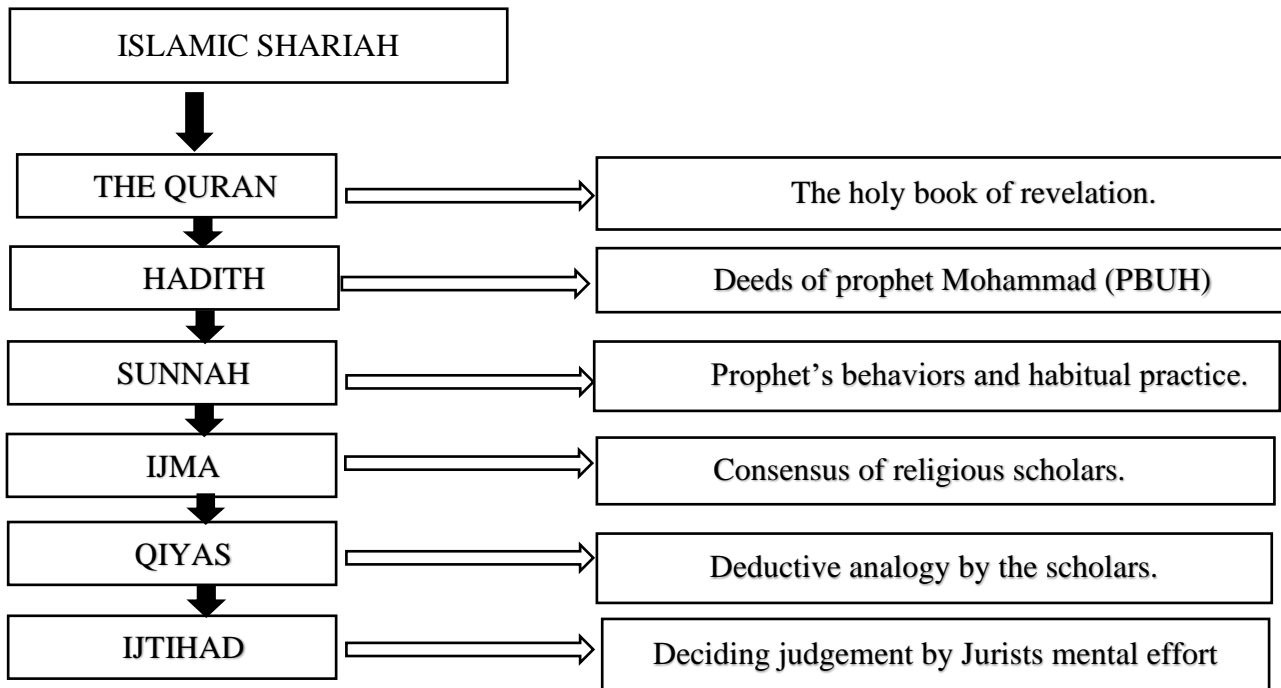


FIGURE 1. Islamic Shariah structure

2.2.3 Concept of money in Islam

There is a conceptual difference in between Islamic financial system and conventional financing system regarding money. Strategically money has very dominant role in both economic systems. Money is treated itself as a goods in conventional economy. Money can be sold or bought. Money can be lent or borrowed. In conventional system it's not mandatory to know how this lent or borrowed money is going to be used. Islamic financial is different here. In Islamic financing system money is considered as a medium of exchange. Money is only considered as capital when its involved in any productivity. If we look at the traditional banking process as an example, bank lends money to its customer and makes contract to get that money back with certain percentage of interest. Bank does not have any concern about how that money is going to be used or what goods or service their customer is going to buy. They just want money return with interest. Same thing happens when they collect deposit from their client with a contract of giving interest. Depositors do not have any idea where this money is going to be lend. On the other hand, Islamic bank follows Islamic shariah which does not allow interest. But still this bank invests for its client. To avoid interest this bank makes the contract of profit sharing so that bank has

huge concern about what customer is doing with this money because their income is related with customer's proper use of that money. Islamic financial system believes in good not money. Money is just a medium to get goods or service. In Islamic finance no one can sell or buy 20 euro note in 21 euro or 19 euro. Money cannot be a product whereas conventional finance money can be sold or bought in higher or lower price. From Islamic perspective, the value of money in whatever form (example: gold or silver coin, paper or crypto currency etc.) is fixed and open. There is no hidden value. (Abdul 2016).

Concept of Money		
CAPITALIST	PURPOSE	ISLAM
Yes	Medium of Exchange	Yes
Yes	Commodity	No
Yes	Purchase Goods & Services	Yes
Yes	Loan to Make Profit	No

PICTURE 1. Concept of money in capitalist economy and Islamic economy (Adapted from Abdul 2016.)

2.2.4 Prohibitions of Islamic economy

In Islamic economy, business and its financial transactions are controlled by some certain prohibitions. Besides these prohibitions Islam teaches some other ethics and norms to get the equality and justice in the society. Shariah laws are the compilation of these prohibitions, ethics and norms. Islamic financial institutes like bank, insurance companies, leasing companies follow this shariah laws strictly to establish a fair and sustainable business ground for the investors and business authorities. Three main Islamic regulations are given below. (Rizza 2016)

2.2.4.1 Prohibition of riba

Riba is an Islamic word which means interests. Any means of interest related transactions is considered as extreme sin in Islam. In many places of Quran, Allah awares his believers about riba and its consequences. “O believers take not doubled and redoubled “Riba”, and fear Allah so that you may prosper. Fear the fire which has been prepared for those who reject faith and obey Allah and the prophet so that you may get mercy” (Al Quran 3:129-130.). Again, in surah Al Bakarah he said, “O believers, fear Allah, and give up what is still due to you from Riba if you are true believers” (Al Quran 2:278)

There are many warnings of involvement in any interest related actions from the sunnah of Prophet Mohammad (PBUH). Many of his companions described his suggestions regarding this issue. From Abu Hurayah, prophet says, “Riba has seventy segments, the least serious is equivalent to a man committing adultery with his own mother”. (Al Tirmidhi Hadith 2826.). Again, from Ali ibn Abu Talib, “The Prophet (PBUH) cursed the receiver and the payer of interest, and the one who records it and the witness to the transaction and said: ‘They are equal guilt’.” (Al Tirmidhi Hadith 2829.). So, it is certainly derived from the above quoted references that dealing with interest is just disobeying Allah and his messenger. Practice of interest system enhance the possibility of accumulating wealth in fewer hands of the society and that increase the chance of risk related capital, unemployment and ultimate inequality of income. Islam does not allow inequity and injustice in society. This is the main reason of prohibiting Riba.

2.2.4.2 Prohibition of gharar

Gharar is an Arabic word which means uncertainty or high risk. Islam prohibits any actions with high risk and uncertainty in business. According to Islam, any sale or any business contract which has ambiguity in nature is completely rejected. Selling anything which is not in control of any parties of the contract could be a perfect example of Gharar. According to Islamic scholars Selling anything which is not present in hand or either party cannot justify the product is bad or good might cause disputes in future business relations and chaos in the society. If we try to give an example, someone is selling all the apples of a tree for the next summer. Here the production of apples is not in hand of either parties. There might be no apple production next year or the tree could be dying, or any natural disaster could be happening to the tree. So, none of the parties is certain about the production of apple and it’s a complete risky deal. Birds in the air, fish in the pond etc. are the same example of Gharar. This kind of transactions or deal does not comply with the ruling of Quran and Sunnah. (Uddin 2015.)

“And do not eat up your property among yourselves for vanities nor use it as bait for the judges, with intent you may eat up wrongfully or knowingly a little of (others) people’s property” (Al Quran 2:188).

No one can avoid risk completely from the business rather risk and profit are related to each other sometimes. Islam allows minimal risk in business but not high risk. To avoid this uncertainty in business contract Shariah law suggests some conditions. Businessman can’t sell any items on which he doesn’t have any legal authorizations. Traders can’t sell any unforeseen product which doesn’t have any existences. Contracts cannot be settled based on any uncertain delivery or payment process. (Paldi 2014.)

2.2.4.3 Prohibition of maysir

Maysir is an Arabic word which means getting wealth by chance. In “maysir” others right doesn’t come in consideration. The word “maysir” actually comes from another word called “yusr” which means getting wealth without paying the justifiable price or working for it. “Qimar” is another term which means “game of chances” also prohibited in Islam. “Qimar” simply refers “Gambling”. In Islamic economy a trader is not allowed to put their money or wealth at stake with a view that this money will bring lots of money or wealth in return though he knows the risks that all the monies or wealth might be lost as well. There are some verses in Quran which suggest believers to keep themselves away from these kinds of activities. In Quran Allah says, “They ask thee concerning wine and gambling. Say: ‘In them is great sin and some benefits for people; but the sin is greater than the benefits” (Al Quran 2:219). In another verse he says, “O you who believe! Intoxicants and gambling, sacrificing to stones, and divination by arrows, are abominable actions of Satan; so, abstain from them, that you may prosper” (Al Quran 5:90).

As a gambler invests money without having any indication of investment result. He assumes that he might earn money or wealth and he also knows that he might end up with losing all his investment. This kind of assumption is kind of “Gharar” as well which is completely prohibited in Islam. Buying lottery, invest in horse race or any kind of race or games etc. are the examples of Maisir. If we look at the conventional bank or insurance companies and their offering, we might find so many schemes, products which are involved with maisir. (Uddin 2015.)

2.2.5 Ethics of Islamic economy

Beside three most significant prohibitions Islamic Shariah has taught some norms which should be followed while conducting economical activities. These principles strengthen the framework of financial activities. These principles ensure the level of honesty, rights, mutual help and justice in any business activities. Quran and tradition of Prophet is the main source of these norms and ethics.

Performing any financial activities, one must be fair. While selling goods seller must be impartial with all his customers. There is no chance in Islamic economy to get any extra favor. Rules are applicable for everyone fairly in the society. Traders must sell in a fair price and no intention to play monopoly. Taking others property unfairly is greatly condemned in Islam. In the last pilgrimage speech Prophet (PBUH) emphasized and ordered his followers to be just with others. Allah says in Quran, "... And let not the enmity and hatred of others make you avoid justice. Be just; that is nearest to piety". (Al Quran 5:8). He again addresses his believers in another chapter and says, "And eat up not one another's property unjustly nor give bribery to the rulers that you may knowingly eat up a part of the property of others sinfully". (Al Quran 2:188).

Prophet Mohammad (PBUH) said, "If anyone interferes in the market to create a rise in prices, God has right to cast him face down in Hell". Islam prohibits "Najash" which means "Fake Bidding". False bidding is highly discouraged in buying or selling of commodities. The intention of false bidding is to make price higher. It is not permissible in Islamic economy as this creates inflation and chaos in the society. (Zulhibri & Manap 2019).

One must be honest in business. In Islam cheating is highly discouraged and honesty is highly praised. Prophet said about the honor of honest businessmen, "Honest merchants shall be with the prophets, the truthful and the martyrs on the day of resurrection". Traders must tell disputes of his goods to the customers. He should not hide the disputes. He should not manipulate customers belief by giving any misleading information about goods. (Borhan 1999.)

Shariah prioritize to fulfil business agreement. Everything must be done in any business conduct according to the contract. Liabilities must be paid by liable party following the agreed time frame. Shariah says, not fulfilling promises is the sign of hypocrisy. (Borhan 1999.)

Islam emphasizes in brotherhood. Allah says in Quran, “Alms are only for the poor and the needy, and officials (appointed) over them, and those whose heart are made to incline (to truth), and the (ransoming of) captives, and those in debts, and in the way of Allah, and the wayfarer; an ordinance from Allah; and Allah is knowing, wise.” (Al Quran 9:60). Islam teaches to be soft and gentle while make any agreement. Holding up solidarity is a great norm taught by Islam. “Zakat” is the fifth pillar of Islam. This is mandatory donation for the poor people of the society given by every wealthy Muslim people. Islam encourage mutual assistance. (Khairuldin 2013.)

Islam does not allow any business of prohibited products. Alcoholic beverages, pork, gambling, prostitution etc. are forbidden Islam so that any business with these kinds of product also banned in Islam. Some scholars also say tobacco is also forbidden product to sell or consume as this product is injurious for one’s own health and passive smokers. (Muslim Investor 1999.)

2.2.6 Sectors in Islamic economic system

Like conventional economic system in Islamic economy also has many financial institutions. Their characteristics and way of conducting business is different from the conventional organizations. Conventional financial institutes are associated with interest and this is totally banned in Islamic economy. So that, Muslim people had to established alternative interest free banking and financing institutes. Islamic financial activities are mainly divided in 3 sectors. Islamic banking, Shariah compliant insurance system “takaful” and Islamic capital market which includes Islamic bond Sukuk, Shariah compliant equities and Islamic funds. Besides these main sectors there are also some leasing companies, micro finance and cooperative companies running their business following the instructions of Islamic shariah. (COMEC 2017.)

Islamic bank is the main and most important sector in Islamic financial structure who collects deposits from the customer and gives loan to borrowers. According to IFSB, 78.9% of all Islamic financial engagement is covered by Islamic banking. It was estimated, total market of Islamic finance is worth of 2.05 trillion USD now and Islamic banks are contributing 1.72 trillion USD. Islamic banks avoid any relation of interests in their banking activities. Other than interest issue Islamic bank do all tasks same as conventional banks. Islamic Development bank, Islamic bank Bangladesh, Bank Nijwa Oman etc are

some Islamic banks in the world. “Islamic banking window” is now a days very popular term. Conventional banks are now opening a window of providing Islamic banking facilities to its customers. (Research and Markets 2019.)

Insurance companies under Islamic economy follows the rules of Islamic shariah and gives insurance facilities to its customers as like conventional insurances. Islamic term is “Takaful” insurance. Examples: Abu Dhabi national takaful co., Islamic insurance Bangladesh Ltd. Etc. “Ijarah” is the Islamic term of leasing. Ijarah companies are the private institutes who works as conventional leasing companies. Example: ORIX leasing Pakistan Ltd., People leasing company Srilanka etc. (COMEC 2017.)

Islamic investment banks and other capital market brokers issues funding, bonds etc. Islamic term of bond is sukuk. This is the second most popular sector among Islamic finance sectors after Islamic banking. At the end of 2017, global sukuk outstanding is worth of USD 399 billion. There are also many Co-operative farm, micro financing institutes who provides Islamic finance. (Research and Markets 2019.)

2.2.7 Criticisms of Islamic economy

Tough the main moto of Islamic economy is to establish a balanced economic system in the society, but it has got some criticism as well from economists, scholars or activists. Islam claims that it has complete economic system, but critics has arisen some issues regarding zakat collections, strict Islamic law and its acceptance to the society, ambiguous terms in Islamic law etc. Islamic economic system is based on Islamic shariah laws. As Islam and its philosophy mainly spreads from the Arab world and all the Islamic scripts are in Arabian language. So that economic terms and laws also in Arabian language. Practicing that specific language outside of Arab world is very infamous. So ultimately there is a barrier for a Non-Arab economist to understand Islamic financial terms by himself from the Islamic literatures. Again, though Islamic economy established in Arab lands first but there is always a lack of studies and researches regarding this issue. So that economists and scholars always face some sort of doubt and as a result they think Islamic economy is not able to cope with the continuous changing economic flow of a society. (Khan 2013.)

It is impossible to run Islamic economy system avoiding shariah law of Islam. Islamic shariah is the fundamental source of Islamic economics rules and regulations. So, critics find that in this system of economy “Islam” is solely related and leads people to Islamism. For example: If a non-Muslim country

starts to follow Islamic economy. So that wealthy Muslim people are bound to practice “Zakat” charity and non-Muslim have to pay “Jizya Tax” according to Islamic law. Though these Zakat or Jizya will be spend for the welfare of the society but both are derived from Islamism. They are serving Islamist causes. According to some economists, the process of measuring and collecting Zakat charity is complex. They also have doubt regarding zakat distribution process. Some activists blame this economic system regarding the issue of women empowerment. They said Islamic shariah does not allow women to involve in economic activities. In Islamic economy women do not have much freedom comparing socialism and capitalism. This is a huge controversial debating issue to Islamic scholars and activists. But the reality is Islam and its economic system does not discourage women involvement but there are certain rules in this issue which might threat their “freedom of involvement” at financial activities. (Khan 2013.)

2.2.8 Global existence of Islamic economy

Islamic finance is growing rapidly though it has still very small contribution in global finance market. But it is tough to get the clear and exact picture of its growth as there is a lack of research on this sector. In February,2017 IMF (International Monetary Fund) expressed their observation over Islamic finance in an article named “Islamic finance and the role of IMF”. They said this financing system is now well established in many of their member countries specially in Asia and Middle east and its growing more internationally. Because of its vast engagement in their member country’s economy IMF opted to establish their Islamic Financial Service Board (IFSB). Though 95% engagement of Islamic finance is now bounded in banking and issuing sukuk but leasing, microfinance, takaful insurances, investment funds etc. are also main activities of Islamic finance. IMF founds, issuing “Sukuk” the interest free Islamic bond is one of the key reasons of the acceptance of Islamic finance globally and its growing. According to IMF in past decades Islamic finance assets has grown by double digits rates. At the end of year 2013 it was estimated Islamic finance assets was 1.3 trillion US dollars whereas its assets were worth 300 billion US dollars in 2003. Significantly most of the key players are Gulf countries who concentrated these assets. Beside these GCC countries Pakistan, Indonesia, Malaysia etc. countries also have large portion of these assets. (IMF 2017.)

In 1963 Islamic banking first started its journey in Egypt and first bank was established named Nasser social bank. Though because of some political incidents this bank didn’t lasts long but it got huge positive response from the people. After that Islamic banking started to flourish immensely from Gulf region

countries to till Turkey. In 1975, establishment of Islamic Development Bank accelerated the acceptance of interest free banking system among the people. But the main boost of this sector came in 1980. This time Islamic banking spread from Middle eastern countries to Asia and Africa. Malaysia, Indonesia etc. countries started practicing Islamic economy together with their conventional economic process. Like many Gulf Muslim countries Sudan, Pakistan tried to Islamize their economy and started building up an interest free financing system. According to Earnest and Young, Islamic banking has now entered in the core market of many countries. They believe Islamic banking assets of Qatar, Indonesia, Saudi, Malaysia, Turkey and UAE jointly will reach to \$1.8 trillion by 2019. From 2009 to 2013 in these five years Islamic banking assets achieved by 17% combined annual growth rate. In 2013 combined profit of Islamic banks was \$10 billion US dollar. Earnest and Young presumes that if this double-digit growth keeps growing the combined profit of Islamic bank will reach to \$37 billion US dollar by 2019. (Ernst & Young 2013; Reiff 2016.)

TABLE 2. Global share of Islamic finance banking assets, (Hirst 2015.)

Rank	Country	Percentage
1	Saudi Arabia	31.70%
2	Malaysia	16.70%
3	UAE	14.60%
4	Kuwait	10.50%
5	Qatar	7.70%
6	Turkey	5.80%
7	Indonesia	3.80%
8	Bahrain	1.70%
9	Pakistan	1.20%

Now Islamic finance is representing very small portion of global finance. But interest is growing. Western financial institutes are showing more interests to foster this financing system. It is estimated that the market has contribution of 1.7 trillion USD in global market and will reach up to 3.8 trillion USD by 2018 as this market has annual growth rate is impressive 17.6%. Islamic Financial Service Board (IFSB) has valued all the Islamic financial activities in five regional divisions named Asia, GCC, MENA, Africa and others. In their secretarial workings 2016 they exposed total contribution of these regions in the year 2016. (IFSB 2016.)

TABLE 3. Regional contribution in Islamic finance (IFSB 2016.)

No.	Regions	Contribution (USD Billions)
1	Asia	425.5
2	GCC	801.1
3	MENA	565.7
4	Africa	30.6
5	Others	70.2

Most significant and influential sector of Islamic finance is Islamic banking. Global growth of Islamic banking is almost double than conventional banking system. Economists and experts are in search of reasons of this unprecedented evolution. They have found many reasons which helps them to predict that this financial system will be one of core market force in few decades. Earnest and young surveyed over 2.2 million customers through social media regarding Islamic banking issue and they found average satisfied customers which clearly shows people starts believing on this new banking system. Global growing of Muslim population and their attraction to ethical investment is an influential cause of rising Islamic economy. Recent unrest and political instability forced a huge number of Muslim to migrate from Middle east to western and Europe countries. They migrated and looks for a financial system which complies with their ethnical belief. So, in Western and Europe countries Islamic banking and financing activities are growing. Even non- Muslim people of these western countries are now interested to Islamic financing system because after global financial crisis they were looking for something alternative which will be less crisis prone and disallow speculations. Many Muslim countries across the world practice conventional banking and financing system. But still there are citizens who holding much money but not interested to use conventional banking as that system allows interests. Now many of these Muslim countries changing their policy and encouraging Islamic banking and finance besides conventional banking so that people get more options to invest their money but not harming their belief. Global use of Islamic bond Sukuk is rising. Countries such as Malaysia are now focusing on investing to develop Sukuk system and making it more convenient to global issuers. (Jaffar 2013; Galfy & Khiyar 2012.)

3 BANKING AND FINANCING

There is a huge disagreement among economic historians about the origin of the word “Bank”. According to some philosophers and writers, the word “Bank” comes from some Latin words like bancos, bancus, bangk, banque etc. A German philosopher W. Frankace said that in ancient period businessmen of Europe and Scandinavia used long benches to sit and conduct their business transactions and lent money to people. These benches were called “bank”. It seems from then the word bank came from. According to British writer Bombrigge, the German word “Banke” or the Italian word “Monte” is the origin of “Bank”. In ancient Venice during the war there was a special loan system which was call banke in German and monte in Italian. Now the word banke evolved into the word bank. (Prabhavati & Dinesh 2018.)

Apart from the historic analysis, in this modern era the word “Bank” has got a wider meaning. Now bank is a financial institute who collects money from its depositors with an intention to lend this money to their customers with interest. Bank is committed to the depositors to return their money whenever then want to withdraw. Bank is a service providing organization which helps to make economic activities more dynamic. Bank plays very important role in social development and economic growth of a country. In general, we can say bank is person, firm, corporation or institution who do their business of money and credit. Professor chambers said, “A bank is an office or institution for the keeping, lending and exchanging etc. of money”. R.P Kent says, “A bank is an institution, the principle function of which is to collect unutilized money of the people and to lend it to others”. Imperial dictionary defines bank briefly. It says, “A Bank is an establishment which trades in money, an establishment for deposit, custody and issue of money and also for granting loan and discounting bills and facilitating transmission of remittance from one place to another.” (Prabhavati & Dinesh 2018.)

In general, we can say all the tasks banks do in their daily activities to serve their business purpose is called banking. Bank is an institution and banking are the functions of the bank. Receiving deposits, issuing loans, issuing bonds, issuing bank notes, transferring money etc. are main tasks of bank. These all tasks are called banking together. Oxford English Dictionary defines banking as the business of banker. It says, “Banking is the business of a banker, the keeping or management of a bank”. Again, according to section 5(1) of Indian banking company act 1949, “Banking means the accepting, for the purpose of lending or investment of deposits or money from public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise”. (Banking Regulation Act 1949.)

3.1 Islamic bank and financing

Islamic bank and its banking arrangement are quite different from our conventional banking system. Present days all over the world Islamic banking has come as a very new concept of banking based on Islamic Shariah law. This banking system has opened a new era in this sector. It has unique ideological background, features and vision. Islamic banking system is the inseparable part of Islamic monetary system. Islamic monetary system has two fundamental rules. One of them is avoiding interest in any money related task and another is concept of profit and loss sharing in business. The main goal of Islamic bank is to follow and establish Islamic economical rules and regulation in banking sector. This banking system is committed to demolish the interest system in banking sector. (Sadr 1982.)

Though Islamic monetary system is 1400 years old concept but even 30 years before this banking arrangement was not popular at all. In 1975 when Islamic Development Bank (IDB) started its journey from then this banking system started to flourish. This banking and financing method got more acceleration in 1980 to 1990 when some Islamic bank was established in some Muslim countries. There are more than 200 banks are already established who follow the banking method which complies with the Islamic Shariah law. Not only banks are been established, there are more than 50 insurance companies are running in 22 different countries following Islamic Shariah law. Besides these hundreds of leasing houses, mutual funds, private investment companies are running all over the world now a days which follow this system. In many Muslim and non-Muslim countries Islamic banks are running alongside with the conventional banks. People are getting interested to know this phenomenon of Islamic banking system. They try to compare this new arrangement with our conventional banking system but as this is very new practice and very few countries using this properly so that Islamic banking remains as mystery to west world even in many Muslim country people are ignorant in this issue. (Reiff 2016.)

3.1.1 Definition of Islamic banking

Many scholars, historians, institutes and acts tried to give the definition of Islamic bank. Malaysian Islamic banking Act 1983 had given a full definition and it says, "Islamic bank is a company which carries on Islamic banking business. Islamic banking business means banking business whose aim and

operations do not involve any element which is not approved by the religion of Islam”. (Kunhibava 2012.)

Organization of Islamic Council (OIC) also explained Islamic bank. In 1978 there was a convention held in Dakar, Sengal where all the foreign ministers came from different Muslim countries. There unanimously this definition was accepted. OIC says, “Islamic bank is a financial institution whose statutes, rules and procedures expressly states its commitment to the principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations.” (Faris 2015.)

State bank of Pakistan has published a definition in their website regarding Islamic banking. They said, “Islamic banking has been defined as banking in consonance with the ethos and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariah.” (State Bank of Pakistan 2016.)

So, it is clearly showing that Islamic banking is a banking process that must follow the Islamic monetary system which is regulated by Islamic Shariah law.

3.1.2 Features of Islamic banking

There are no big explicit alterations between conventional banking and Islamic banking system in performing basic banking activities. Islamic bank has some unique characteristics which make this banking system different from our conventional banking system. Islamic bank follows its own way of conducts and rules. Characteristics of Islamic bank are given below.

Islamic bank is an institution which is established based on Islamic ideology. This banking method is the devoted part of Islamic monetary system. Islam has the mission to establish a righteous and just ground to performance economical functions in the society. Islam wants a balanced economic structure in the society. To fulfill these goals of Islamic economy, this bank plays a vital role. Islamic bank is a business organization. There is a common belief that as this bank has religious connection so that this might be a charitable organization, but thing is completely different. They might do charity but it’s not as a charitable organization. They do business. They do profit and face loss sometimes. If Islamic bank involves in any joint investment it also shares the profit and loss. (Galfy 2012.)

Islamic bank follows Islamic shariah. It is obligatory to maintain their functions following the rules and regulations which are allowed in Islamic economy. Islamic bank must make sure that their business activities like daily transactions, collecting money, giving loans, investment must comply with the shariah law. Staffs of this bank should be careful about involvement of any interest while giving investment suggestion to their customers. Administrative activities of Islamic bank also follow shariah rules. To make sure that banking of any Islamic bank is following Islamic shariah every bank has their own sharia council. This shariah council keeps eye on banking. Islamic scholars, economists are the member of this council. They suggest bank's administrative authority time by time how to operate banking following shariah rules and being transparent regarding this issue. (Kunhibava 2012.)

Islamic bank is a financial institution. It deals with money like other financial institutions. Conventional banks consider money as their product. They do money business. In Islamic banking money is not considered as product rather it is used as a medium of a transaction and bear the risks of the business. (Farah 2019.) It collects money from the depositors and build its fund where from bank issue loan to the borrowers. It's an interest free banking process. Avoiding interest is one of the fundamental features of Islamic monetary system. Islamic bank does not allow interest in any circumstances. In Holy Quran it is inspired to do business but warned about dealing with interests. "Allah has permitted trade and forbidden riba". (Al Quran 2:275.)

Islamic bank follows the principle of profit and loss sharing process. Islamic bank avoids any income coming as interest but still this bank does their income based on this profit and loss sharing concept which is absolutely allowed in Islam. They make the depositors as partners in their bank's investment and share profit or loss with them. On the other hand, while giving loans bank itself become the partner of the borrower and take the risk of profit and loss. Banks also monitor their investment and give suggestion to the lenders. (Drizane & Al-Malkawi 2019.)

Establishing "Zakat" fund is one of the unique features of Islamic bank. People give their Zakat to the bank and bank builds a special investment fund with this charity. Following the rulings of shariah his fund is used for the development and the rehabilitation of the poor people. (Björklund & Lundström 2004.)

Islamic bank does not act as pure commercial bank. Islamic bank works both commercial bank and investment bank. As Islamic bank invest in profit sharing method it suggests its customer time to time regarding the best use of the investment and gaining profit. Here bank works as investment management

institutions. Banking business on any kind of lease must have an underlying asset which is not a common practice of traditional banking. In traditional banking mortgaging is not that much necessary. (Galfy 2012.)

3.2 Islamic bank depositing products

Islamic bank collects money from customers through two main types of account. “Al Wadiah” account is similar to conventional current account and “Mudaraba” account is like savings account of conventional banks.

Al Wadiah is derived from the Islamic word “wadiun” which means preserving money. In Islamic banking terminology it’s a contract between bank and its depositor to open a bank account where depositor can deposit and withdraw their money any time. Bank is responsible to return money whenever customer wants to withdraw. Through this contract bank also got the permission from client to use this money until client withdraw. In Al Wadiah system there is no right of customer to get any share of profit that bank earns by using depositor money. On the other hand, customer is not liable for any loss occurred. This is same as conventional current account of western banks. Bank charges fees for maintaining this kind of accounts. (Union Bank 2017.)

Islamic banks offer savings accounts too which is called “Mudaraba account”. Through this contract bank and client are agreed that depositor will deposit money for a period and bank will share their profit or loss in a certain percentage. Bank has the full right to use this money. The main difference of conventional savings account and mudaraba is, in conventional savings account bank ensures depositors that they will not bear any losses rather bank promises to give a certain amount of interest to its depositors based on depositing money. As Islamic banking is interest free banking and promote profit and loss sharing system, bank shares both profit and loss with its mudaraba account holders. Depositors can withdraw their deposit before the period ends but not so frequently like al wadiah account. Bank issues cheque book for their mudaraba account holders. (Trust Bank 2016.)

4 ISLAMIC FINANCING

Financing is the way of providing funds, doing financial transactions and banking. Funds can be provided by either organization or person. Organization can be private or public. Islamic financing is the system to facilitate all activities in supplying money and banking under Islamic shariah law. Islamic finance is representing only 1% of the world financial assets. But the phenomenon is Islamic finance is growing more rapidly than the conventional finance. The growth rate of Islamic finance is estimated 10% to 12% each year. Looking 30 years back, people hardly knew about Islamic finance but now this industry is worthy of 2.2 trillion dollars. According to the 2017 report of Reuter, by 2021 this amount will reach to 3.5 trillion dollars. Islamic bank is the biggest contributor in Islamic finance industry. Like other conventional banks Islamic bank also collects money from its clients through current and savings account. Avoiding interest and following other shariah rules, Islamic bank offers many financing products to its clients, but these products remain mostly conventional. Sukuk is the second largest contributor of Islamic finance. Beside that Islamic “Takaful insurance” and Islamic micro finance institutes are now having significant part of Islamic global financial assets. (Research and Markets 2019; Vizcaino 2018.)

4.1 Islamic bank financing products

In traditional banking all investments products are related to interest. But as Islamic banks follow Islamic shariah law so that they avoid interest in giving loan to its clients. Islamic bank mainly follows three methods in financing. They are, purchase and sale method (Bai mechanism), sharing method (Musharaka) and leasing method (Ijarah). Bai mechanism is again categorized in four different modes and Musharaka is divided in to two. (Islami Bank Bangladesh Ltd. 2019.)

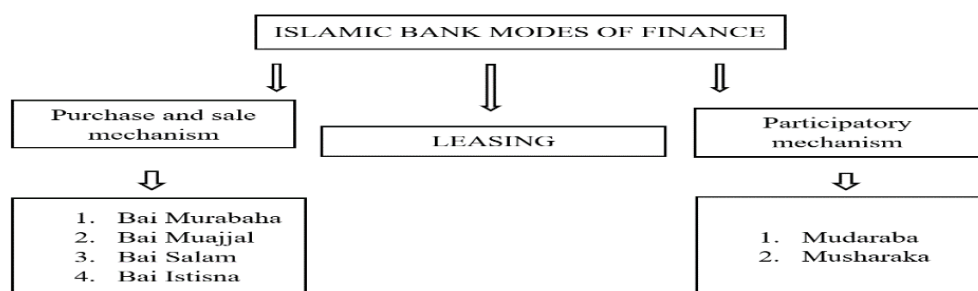


FIGURE 2. Modes of finance (Islami Bank Bangladesh ltd. 2019.)

4.1.1 Purchase and sale methods

Under this mechanism bank buy the necessary product or asset instead of giving loan. Bank buy the product and add all related costs. Then bank add settled profit and set the selling price to its client. This is way bank avoid interest but gets its income by making profits. Under bai- mechanism bank mainly follow four different system of financing. (Afkhar 2015.)

4.1.1.1 Bai- murabaha

Bai-murabaha is very popular financing method in Islamic banks and financial institutions. The word “Bai” means purchase and sale. Word “murabaha” is originated from Arabic word “ribuhun” which means agreed profit. So, *Bai murabaha* is a contract between bank and its client where bank agrees to buy a product or asset for client and client agree to give price which is settled by the bank. This is very crystal-clear system where bank and client both know purchasing price and the profit margin. (Islamic Bank Bangladesh Ltd. 2019.) To make a successful bai- murabaha deal there are some basic conditions which must be fulfilled like product or asset must have existence and monetary value, bank must have the ownership and possession of the product which they are selling to client, selling must be done instant and unconditional. Customer should have clear notion about the product and the price otherwise this contract will be void. Sometimes bank can demand mortgage or guarantor as by credit selling bank gives the complete ownership of the product to the client. So, bank needs some sort of assurance, but it varies bank to bank. In bai- murabaha, bank doesn’t have any further chance to add extra money or compensation after selling even if client failed to repay on the agreed time frame. (Jarhi & Iqbal 2001.)

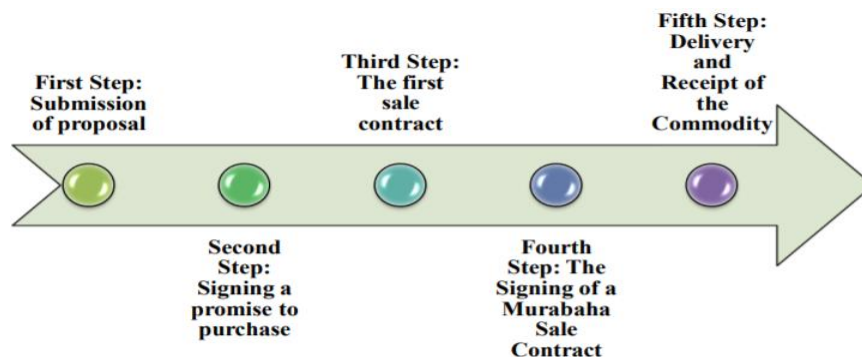


FIGURE 3. Steps of Bai Murabaha (Adapted from Begum 2017.)

4.1.1.2 Bai muajjal

The word “Bai- muajjal” derived from two Arabic word “bai” and “ajal” which mean “purchase or sale” and “time”. So, bai- muajjal is contract of credit sale where customer requests bank to buy a product or asset on behalf of customer and agrees to repay money in a certain time. There are some basic differences between bai-murabaha and bai- muajjal though they are both mainly credit sale. In bai- muajjal, bank doesn’t tell the purchase price to its client and tells only selling price. Bank could earn profit or loss, but they are not declaring it. There are some conditions in bai- muajjal contract like customer gets the full possession of the product, bank is not bound to disclose profit amount, product should have existence etc. (Begum 2017.)

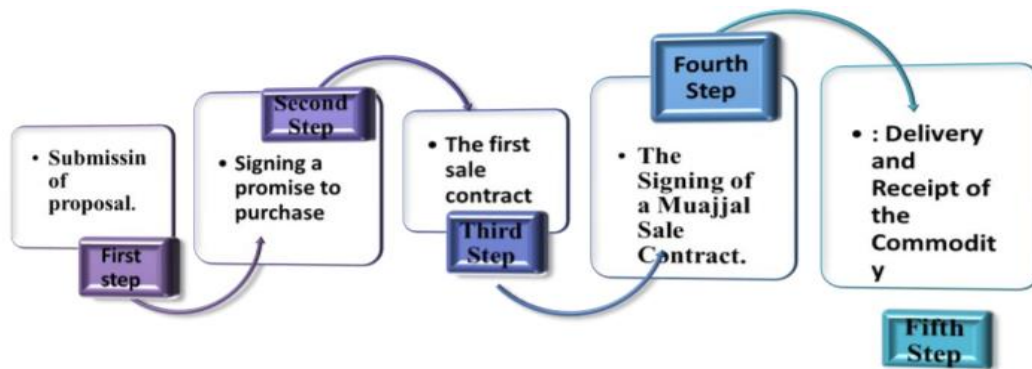


FIGURE 4. Steps of Bai Muajjal (Adapted from Begum 2017.)

4.1.1.3 Bai salam and bai istisna

Salam is one of the fastest growing forms of Islamic financing. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) says, “A salam transaction is the purchase of a commodity for deferred delivery in exchange for immediate payment. It is a type of sale in which the price, known as the salam capital, is paid at the time of contracting while the delivery of the item to be sold”. Bai-salam is an exclusive financing system of Islamic bank. Salam is an Arabic term which means “in advance”. In bai-mujjal and bai murabaha sales are done in instant but in bai-salam means futuristic credit sale to the client. In bai-salam contract bank promises to pay instantly but product delivery will be done in future in a certain time frame. Normally Islamic bank performs bai-salam finance in agricultural sectors. (SBP 2005.)

Bai- istisna is getting much popularity now a days. It is a financing contract between bank and client where client order to bank to build or manufacture the product and payment will be done in future. Mainly istisna financing is popular in housing purpose. Bank sets the total sum of the housing and client agrees to pay the money in installments. Under this contract, physical existence of the product is not necessary. Istisna is a contract for manufacturing whereby the manufacturer or seller agrees to provide the buyer with goods identified by description after they have been manufactured/constructed in conformity with that description within a certain time and for an agreed price. (Bank Negara Malaysia 2015.)

4.1.2 Participatory method

This is the modes of financing where Islamic bank provides fund to person or organization with a view to earn profit. But bank also shares any loss occurred. Partnership contract provides a foundation of Islamic bank through equity financing modes. In providing funds, Islamic bank uses passive partnership (mudaraba) activating and accelerating the use of customers deposits to investment. Bank also remains active in partnership by Musharaka contract.

4.1.2.1 Mudaraba and musharaka

Mudaraba is an investment contract where one party agrees to provide capital and another party utilizes this money in business by using his labor, intelligence, time. It is contract based on trust. Fund provider (sahibul maal) and utilizer (mudarib) share profit of the business according to the contract. But the unique feature of mudaraba financing is if any loss occurred in business then fund provider will bear all that loss. Though it looks unfair but inner notion is other party is also victim of this loss as he is not getting any return of his time, labor he invested. Under mudaraba scheme bank invest money for a certain period. Mudarib or fund taker must return money after the successful business done. But if loss happens then bank will take care of that. There is chance to renew this type of contract. It is permissible to take mortgage from “Mudarib” as a security of the investment. (Blaha 2014.)

Musharaka is an Islamic term which is derived from an Arabic word “Shirkat” which means being partner. Musharaka is a kind of business contract by which two or more parties agreed to invest money and run the business. When Islamic bank sign in a musharaka contract that mean bank will also take participation in managerial activity. In mudaraba system bank remains as silent partner but in musharaka bank

works as active partner. It is not necessary for all the parties to provide equal funds. Profit and loss are shared according to the investment ratio among all the parties. (Blaaha 2014; Usmani 1998.)

Musharaka is such an agreement under which a portion of capital of anything is provided by a bank conducted in accordance with the Islamic shariah and the other portion is given by the customer and in which profit is distributed in such proportion as mentioned in the agreement and loss is distributed in proportion to the capital. (Bank Company Act 1995.)

4.1.3 Ijara leasing mechanism

It is an investment technique by which bank rent property to its clients. Property must be owned by bank. Bank sometimes buy property according to client's demand and rent to client. Leasing is called asset financing. Leasing is an agreement which allows one party (lessee) to use a property of another party (lessor) for an agreed sum of money in a certain time period. There are mainly three types of lease.

4.1.3.1 Ijara wa iqtina (finance lease) and Ijara tumma al bai (hire purchase)

“Ijara wa iqtina” is a kind of leasing contract where lessee pays rent and at the end of the leasing period lessee has chance to get the ownership of the property. There is no chance to cancel this contract before the leasing time ends. Bank arranges the property according to the client demand and rented to the lessee who is also responsible for the maintenance costs of this property. Finance lease is mainly long-term lease. (Bako & Aliyu 2018.)

“Ijara tumma al bai” is a leasing contract for short time periods. In this Ijara contract there is no association of purchase agreement. Any time if both parties agree then contract can be stopped. At the end of the leasing period lessee must return the property to the bank (lessor) so that bank can again lease the property to the other clients. During the leasing period, lessor bears maintenance cost of the property like insurance, repairing etc. (Azizi 2005.). Ijara tumma al bai is a kind of agreement between bank and client that bank will buy fixed asset for the client. This rent eventually reduced the total price of the property and at the end when full money is paid then bank transfers the ownership to the client. Before buying the property, bank gets the proposal from client to buy certain property and bank takes a down payment from client. Then bank adds up more money and buy property. Bank keeps the ownership of

banks part of the property and rent it to the client. Client pays rent and installment for the bank owned part of the property. (Azma, Rahman & albaity 2014.)

4.2 Sukuk (Islamic bond)

Global sukuk market is growing day by day. Sukuk is now considered as important source of capital in Asian and African countries. In 2018, global sukuk issuance is USD 123.1 billion which is 5.5% more than 2017. Malaysia is leading Asian country who is using most of the sukuk fund worth \$560516 million US dollars from 2001 to 2018. Among the GCC and Middle eastern countries issued \$185478 million US dollars sukuk from 2001 to 2018. Till September of 2017 total globally issued sukuk value reaches up to \$918913 US dollars. Among them domestic and international issuance is worthy of \$706186 and \$212727 US dollars respectively. (IIFM sukuk Database 2018.)

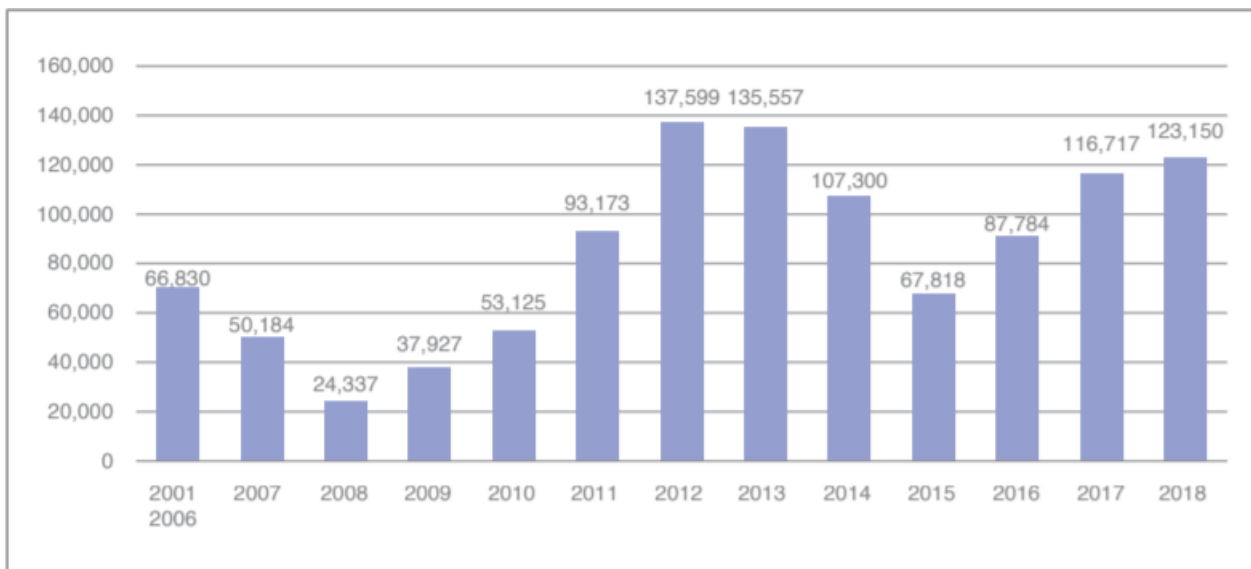


FIGURE 5. Global sukuk issuance (IIFM database 2018.)

Within few years, there are some important and significant events are going to be organized in middle eastern countries. Like in 2020 UAE is arranging World expo, Qatar is going to be the host of World cup football 2022 etc. For arranging these events these countries need huge amount of money to build up infrastructure, roads, stadium etc. Considering these issues and other factors market participants are predicting that global issuance of sukuk will reach \$250 billion US dollars within 2020. (Latham & Watkins LLP 2015.)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.003%
Brunei Darussalam	161	10,257	0.003%
China	1	97	0.01%
Hong Kong	5	3,196	0.29%
Indonesia	406	79,492	7.22%
Japan	3	190	0.02%
Malaysia	6,355	670,121	60.84%
Maldives	2	10	0.001%
Pakistan	89	16,123	1.46%
Singapore	16	1,498	0.14%
Sri Lanka	2	5	0.00%
Total	7,044	781,026	69.98%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	415	30,883	2.80%
Jordan	4	483	0.04%
Kuwait	18	3,658	0.33%
Oman	10	5,290	0.48%
Qatar	40	28,661	2.60%
Saudi Arabia	169	117,816	10.70%
United Arab Emirates	124	79,378	7.21%
Yemen	2	253	0.02%
Total	782	266,422	24.19%

FIGURE 6. Regional break-up of global issuance 2001 to 2018 (IIMF database 2018.)

4.2.1 What is sukuk?

Sukuk is the Islamic equivalent of bond. Bond is a very common and popular way of raising fund in global finance market. It's a certificate of taking loan and promise to repay after a certain time. With the permission of stock market authority, a company can issue bond in stock market to take loan from the people. Issuer of the bond promises to repay the loan and offer fixed interest for the bond holder in a certain period. When the bond reaches the maturity at the end of the term then issuer repays the full loan amount to the lender. (Zolfaghari 2017.)

Bond is absolutely engaged with interest which is prohibited in Islam. So, Islamic financing system brought an alternative of conventional bond to avoid interest issue. It is called *sukuk*. The word *sukuk* is the plural form of Arabic word "sakk" which means certificate. Sukuk is the tradable certificate of ownership of tangible asset or company venture issued by the company for a certain period. Within this time company will share the profit with sukuk holders which is derived from this asset. Here is the main difference between conventional bond and sukuk. Sukuk holders get the profit but conventional bond holders get fixed interest from the bond issuing company. Sukuk is tradable and it is possible to buy from either issuing company or secondary market. Many types of sukuk are issued now. Some of them are given below. (COMEC 2017.)

Different types of sukuk schemes are Sukuk al-ijarah (Partial asset ownership), Sukuk al-murabaha (Partial debt ownership), Sukuk al-istisna (Project based ownership), Sukuk al-musharaka (Business equity), Sukuk al-istithmar (Investment based), Salam sukuk (Future acquisition based). (Paldi 2015.)

4.2.2 Sukuk structure and concept of SVP

Elaboration of SPV is special purpose vehicle. Simply SPV works as an intermediary between sukuk issuer and sukuk holder. Money flows from company to sukuk holder through SPV. SPV buys the asset from originator on behalf of sukuk holders. SPV then divides it in equal units and transfer to the sukuk holders. Sukuk holders then pay to SPV. SPV then provides fund to the issuing company after deducting all processing costs. Company then invest this fund in shariah compliant assets or projects which generates profits or loss. SPV collects this profit or loss and distributes among the sukuk holders. At the end of the maturity sukuk holder sell their certificates to SPV and get their principle invested money back. SPV then sells the asset back to company. (Muatuz 2017.)

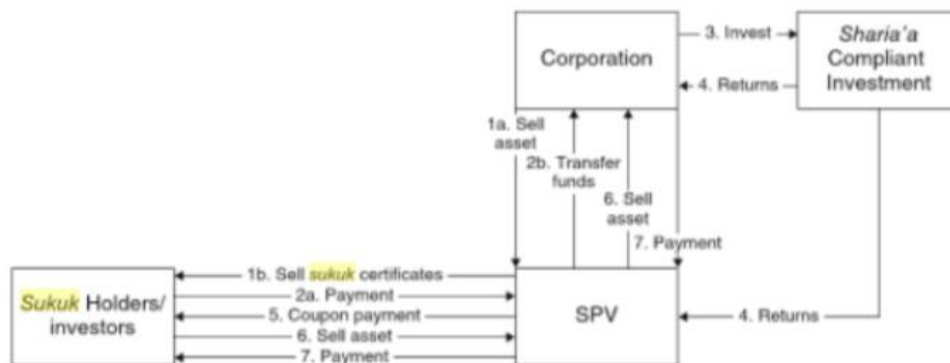


FIGURE 7. Sukuk structure (Muatuz 2017.)

4.2.3 Difference between conventional bond and sukuk

TABLE 3. Conventional bond and sukuk (Afsar & Tahmoures 2013.)

No.	Subject	Conventional bond	Sukuk bond
1.	Asset ownership	Conventional bonds don't give investors any ownership of the asset, project or company ventures.	Sukuk gives partial ownership of the asset or venture of the company on which sukuk is issued.
2.	Issue unit	Each unit represents unit of debt.	Each unit of sukuk is the ownership share of underlying asset.
3.	Unit price	Each unit of bond is determined by the credit worthiness of the issuing company.	Each unit of sukuk is determined by the market value of the underlying asset.
4.	Conditions	Bonds can be issued to raise fund to invest on any asset or projects which is approved by local law.	Sukuk derived fund must be used on shariah compliant assets or projects.
5.	Investment return	It gives assurance of returning principle amount of investment at the maturity of the bond and at the same time conventional bond gives regularly scheduled interest payment during the lifetime of the bond.	Sukuk also assure investors to return basic amount of investment at the end of maturity. Sukuk doesn't offer interests rather it offers profits sharing with the investors. Investor also bears if any loss incurred.

4.3 Takaful insurance

Takaful is an Islamic shariah based insurance product. The word "takaful" is originated from the Arabic word "Kafalah" which means "guaranteeing each other". Popularity of this insurance product is growing rapidly in Asia Pacific region as well as GCC region. The global takaful market has reached now USD 19 billion and it is expected to cross USD 40 billion by 2023. (Market research 2018.)

Conventional insurance system deals with interests (riba) and offers insurance on uncertainty (al-gharar). Riba and gharar is absolutely prohibited in Islam. But Islam doesn't prohibit the essence of insurance system. Takaful is the insurance system of Islamic finance sector. It's a mutually agreed system of co-operation and repayment of any monetary loss of individual or institutions. In takaful insurance system members accumulate funds in order to promise each other against any loss or damage. It is a shariah based insurance system. All policy holders contribute money instead of giving premium with a view to raise a mutual fund. Then with this contribution creates a takaful fund. This fund is run and managed by a takaful operator or company. Each policy holder contributes according to the coverage they need. Like traditional insurance system, nature of risk and time periods are mentioned also in takaful agreement. If any member faces damage or loss on insured item and claim to takaful operator then takaful operator paid out reimbursement from takaful fund. Takaful funds are raised under three models. "Wakalah" model where operator works as an agent and get fees from policy holder), "mudaraba" model where agent invests fund in profit sharing basis. Third one is hybrid model which is mix of both wakalah and mudaraba model. (Whittaker 2015.)

Takaful products are divided into two sections. General takaful and family takaful. General takaful covers any materialistic loss of individual or institutes. General takaful policy holders contribute in the fund as donations and agree that this contribution will raise a fund which will help other policy holders. General takaful products are personal accident takaful, motor takaful, home takaful. Family takaful covers any dangers of human life like death, handicap etc. Family takaful products are family takaful, child education takaful, medical and health takaful, investment linked takaful. (Hussain & Pasha 2011; Bakar, Yusof & Rahman 2008.)

5 RESEARCH WORK AND METHODS

Research can be done in two methods; quantitative method and qualitative method. Ways of data collection and objective of collecting data are different between these two ways. Qualitative research enables a researcher to illustrate the characteristics of researching issue. On the other hand, quantitative research helps a researcher to find and measure all data from studied area.

Quantitative research is a system which is used to quantify data and generate statistical result. Normally this method is used to research on larger sample population of interest. This method is very effective to measure views, opinions of sample population and outcomes of research can be used to generate facts and find patterns. Quantitative research method uses structured and precise data collection instruments. Online or paper surveys, polls etc. are used in quantitative research. (Johnson & Christensen 2014.)

Qualitative research is more investigative way than quantitative. Qualitative data are collected through interviews, observations. Respondents gives open opinions. The main objective of this kind of research is to find the underlying thoughts, opinions and motivations of people regarding researched issue. Usually these kinds of researches are done on small number of respondents. (Johnson & Christensen 2014.)

A research is evaluated based on the validity and reliability of all the data that are collected through the research process. When evaluating multi- item scale, reliability is less valuable in comparison to validity. In a research, the word “validity” refers how good the accumulated data covers the actual area of research. The term “reliability” in any research simply means how effective the instrument is working. Reliability is a degree to which a research tool generates consistent outcomes. It is not solely possible to get exact estimation of reliability but an approximate reliability can be attained. Reliability focuses on precision, which gauges the extent to which scale generates steady results. On the other hand, validity mainly concentrates on accuracy of the scale in producing expected result. (Surbhi 2017; Heale & Twycross 2015.)

Keeping all the above-mentioned issues in mind, in this thesis quantitative research method has been chosen. The aim of this thesis was to find out the possibilities and acceptance of Islamic banking and its financing tools in Finland. Questionnaire is one of the most useful tools to collect data. Reason behind using questionnaire to get relevant information from the survey in a valid and reliable system. A structured set of 28 close ended questions was created. These questions were set to get a clear idea of how

people got financed here in Finland, what is their view regarding interest-based banking system or interest free banking system and to have a clear idea of peoples demand of having Islamic bank or practice of Islamic banking tools here in Finland.

5.1 Research result

A quantitative research was done through out the month of January 2019 in a Facebook groups where foreigner and native Finnish are members. Online survey forms were also sent through Facebook messenger to small shop owners specially to those shop owners who has different religious background other than Christianity. 35 people responded in this research. 28 questions were asked and among them first seven questions were about basic information of respondents regarding their age, nationality, religion, gender, profession and civil status. Then some questions were asked regarding their banking activities. Rest of the questions were about why they need loans, how they got financed and their view about interest free banking system.

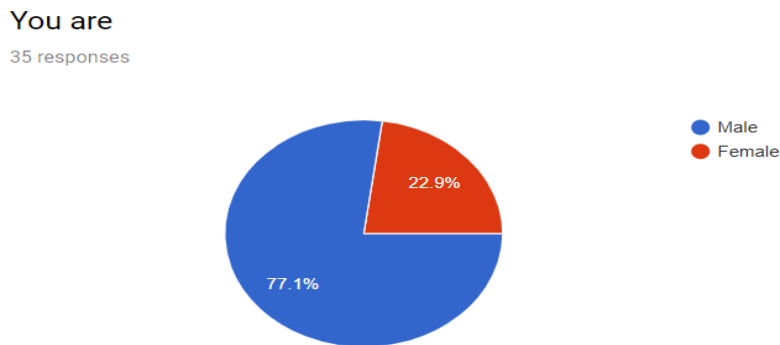


FIGURE 8. Gender distribution

The first question was regarding the respondent's gender. Among 35 participants 22.9% were female and 77.1% were male which means 8 female respondents and 27 male respondents.

Would you please state your age?

35 responses

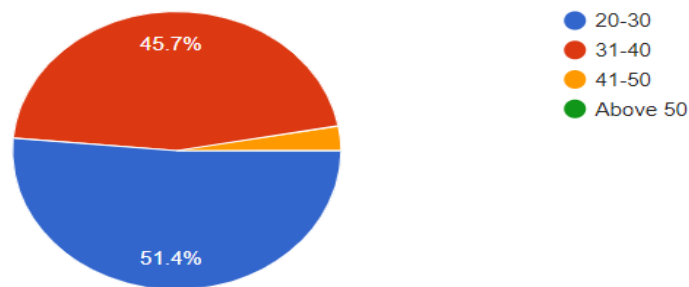


FIGURE 9. Age distribution

In this research questionnaire there were four age groups for participants and each participant asked to choose one. Age groups were 20-30 years, 31-40 years, 41-50 years and above 50 years. Among 35 respondents there were no one is over fifty years old but there was one respondent whose age was between 41 to 50. Most of the respondents belonged to the age group 20 to 30 years, with a percentage of 51.4%. Second highest percentage is 45.7% which is belonged to age group 31 to 40. So, among 35 respondents 34 persons are between 20-40 years old.

What is your religion?

35 responses

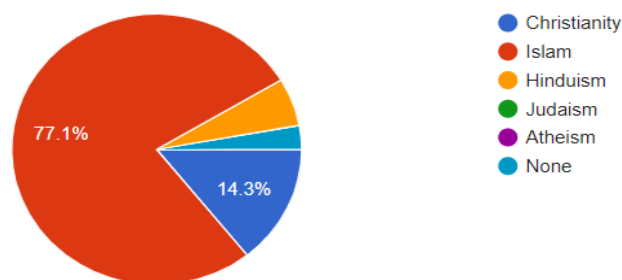


FIGURE 10. Distribution of Religion

This question was asked to know about the respondent's religion. It was an open-ended question and respondents were given six options. According to responses 27 person follow Islam among 35 persons. After that Christianity holds the second position with a percentage of 14.3%. There were two respondents who follow Hinduism and one respondent doesn't follow any of five belief. There were no respondents who follow either Judaism or Atheism.

How religious you are?

35 responses

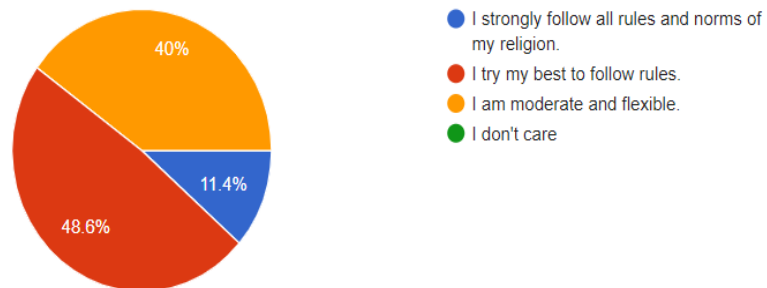


FIGURE 11. Religiosity

Respondents were asked about their religious practice. Among 35 respondents 11.4% follow all rules and norm of their own religion. Near about half the respondents (48.6%) try their best to follow rules of religion. 40% of respondents find themselves moderate and flexible in practicing religion. In this question respondents were given four option and the last option was “I don’t care” which means religious issues doesn’t influence their livelihood. But among 35 respondents no one chose this option which means religious norms or ethics has some influence in individual’s livelihood.

What is your profession?

35 responses

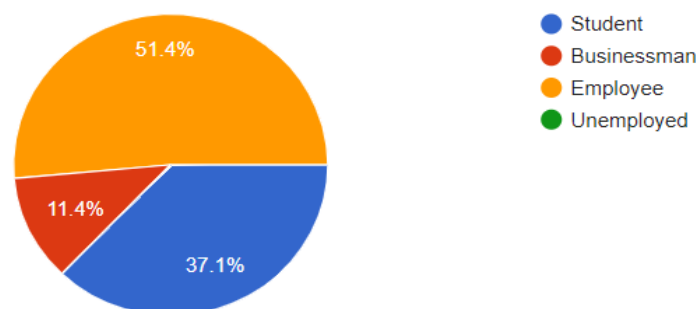


FIGURE 12. Professions

This open-ended question had four options to answer. Respondents had to choose one option of profession and those options were students, businessman, employee and unemployed. Result is shown at Graph

12. None of the respondents was unemployed. Over half of the respondent (51.4%) are working as employee. 37.1% respondents choose study as their profession. Four respondents stated themselves as business owner.

What is your civil status?

35 responses

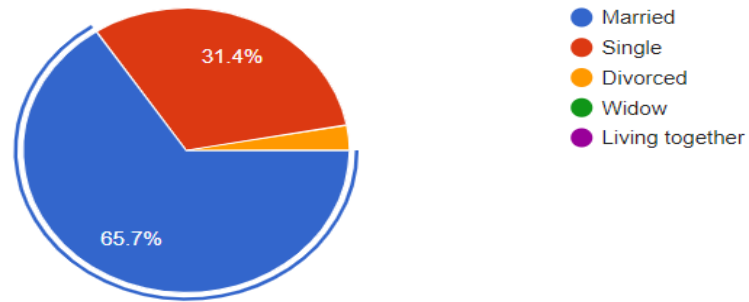


FIGURE 13. Civil status

Question number six was asked to know about their civil status. Five options were given to choose from but none of the respondents choose either widow or living together. Among 35 respondents 23 persons are married and 31.4% respondents are bachelor. One respondent stated himself as divorced.

Do you have children?

34 responses

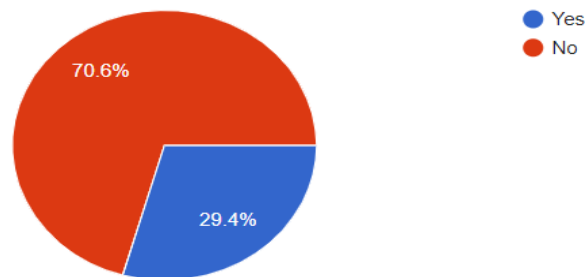


FIGURE 14. Having offspring

Survey participants were asked about their children. 34 persons responded in this question and among them 24 persons said that they have children and rest of 29.4% respondents had negative response. One person did not answer this question.

Are you a Finnish citizen?

35 responses

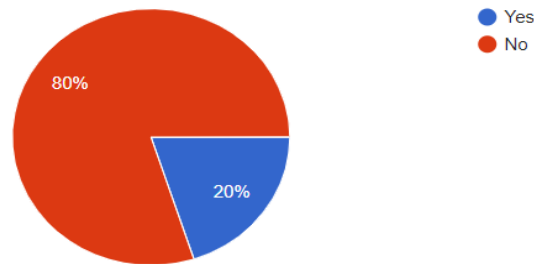


FIGURE 15. Distribution of nationalities

It was mentioned before that this questionnaire were send to the participants who reside in Finland. But not all respondents have Finnish nationality. So, Graph 15 shows that among 35 respondents only 20% are holding Finnish nationality and rest of the respondents are foreigner here.

How long you are living in Finland?

35 responses

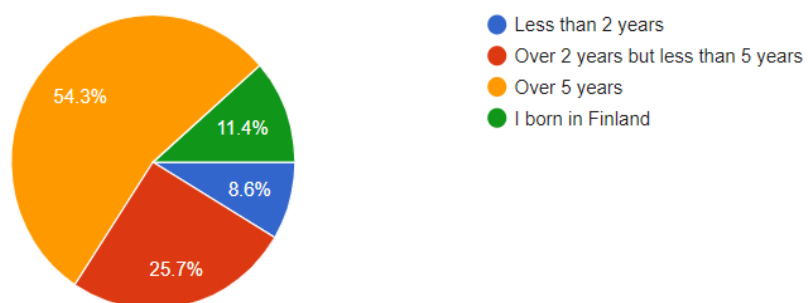


FIGURE 16. Duration of living in Finland.

Respondents were given four options to select one of them. They could response that they born in Finland. Other options are living Finland less than 2 years, over 2 years but less than five and over 5 years. 54.3% respondent living Finland more than 5 years. 25.7% person choose second option that they are living here for more than two years but less than 5 years. Among 35 persons only 3 persons said they have lived here less than 2 years and 11.4% respondent marked themselves as native Finnish.

Do you have any personal savings?

35 responses

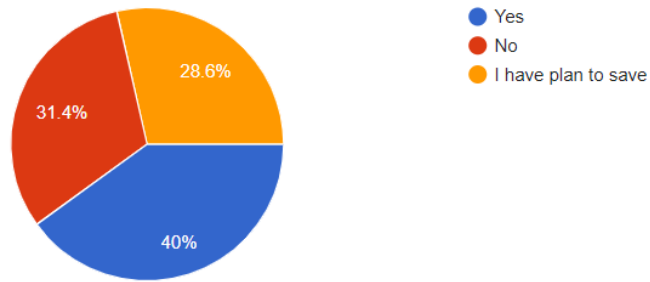


FIGURE 17. Personal savings.

Respondents were asked about their personal savings. This question was asked to know about their money saving tendency. They were given three options yes, no and I have plan to save. 40% respondents said that they have personal savings and on the other hand 31.4% given negative answer that they don't have any personal savings. Out of 35 Respondents 10 respondents said they have plan to save money in future.

Do you have any bank account?

35 responses

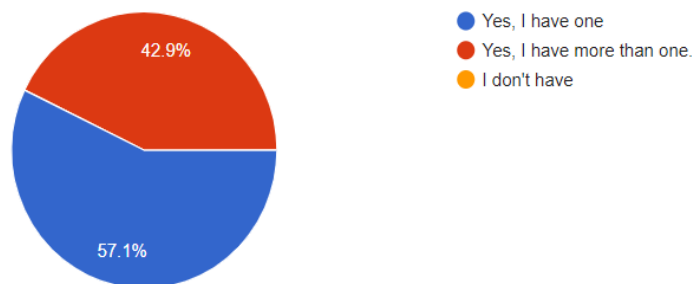


FIGURE 18. Respondent's bank accounts.

Respondents were asked if they have any bank account. Aim of this question to know the number of banks they have relation with. Respondents were given three options whether they have one bank account, more than one bank account or they have no bank account. According to Graph 18 everyone has bank account. Graph shows that 57.1% respondents has one bank account and 42.9% respondents have more than one bank account.

Did you ever take any bank loan? If your answer is yes, select the purpose. You can choose more than one options

35 responses

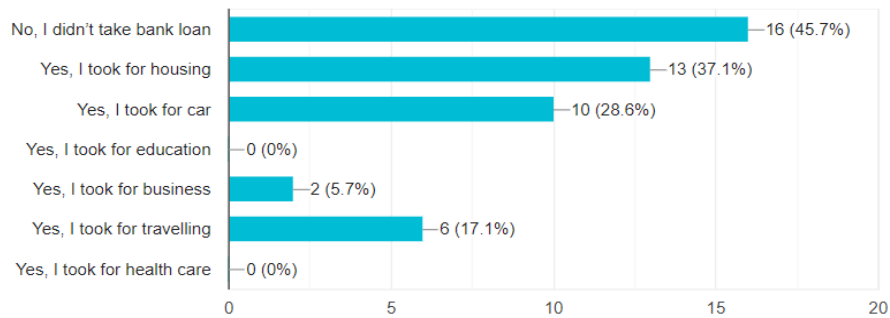


FIGURE 19. Purpose of taking bank loan.

In question 12, respondents were asked if they have ever taken any bank loan and the purpose of taking loan. Respondents who took loan from bank were given chances to choose more than one options two choose. 16 respondents said they never took loan from bank. Most common issue of taking loan is housing and for buying car. More than 37% respondents said they took loan from bank for housing and 28.6% respondents said they took loan for buying car. For business purpose only 5.7% respondents take loan from bank and 17% choose travelling. For education and health issue there were zero responses.

What kind of household you are living?

35 responses

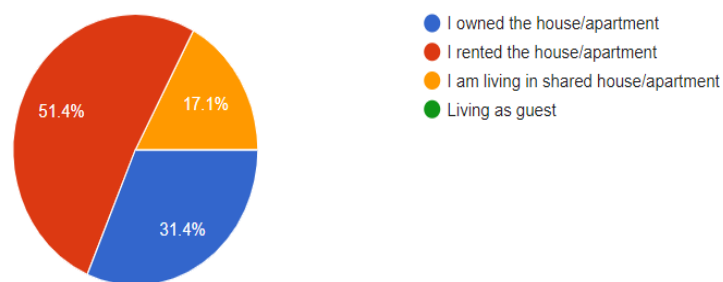


FIGURE 20. Household type

Respondents were asked about their household. 51.4% persons said they live in rented household and 17.1% said they live in shared house/apartment. 31.4% respondents marked themselves as the owner of house/apartment. There was also an option of living as a guest. But no one responded in that option.

If you are owner of a house/apartment, how you have managed the money to buy it?

35 responses

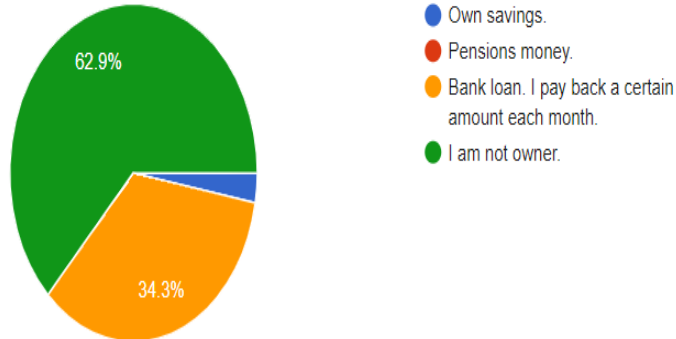


FIGURE 21. Source of funding to buy house/ apartment

In this survey, respondents were asked how they managed to buy apartment or house. 62.9% people said they don't have any apartment or house. Over 34% of people replied that they took bank loan to buy their housing. Just one person said that he used his personal savings to buy his apartment house. There was also one option of using pension money, but no one choose that option.

Did you ever buy any household or communication equipment (Tv, mobile phone, washing machine etc.) or vehicles in installment?

35 responses

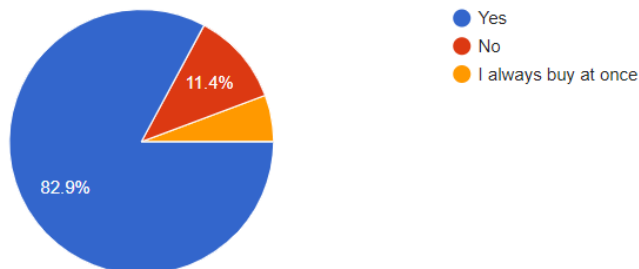


FIGURE 22. Respondent's payment approach for household or communication equipment

Respondents were asked if they ever buy any vehicles, household or communication equipment in installment. Near about 83% respondents gave positive reply and 11.4% people said they don't prefer installment as payment option. Among 35 respondents only 2 persons said they always pay at once.

Do you pay interest also while repaying installments?

35 responses

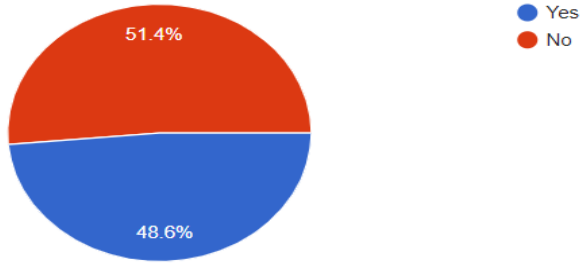


FIGURE 23. Paying interest while repaying installment

Respondents were asked, if they pay any interest while repaying installments. They were given two options Yes and No. 51.4% respondents said they don't pay any interest with installment. 48.6% respondents said they pay installment with interests.

If you pay interests, are you aware of that you are paying extra money than market price?

34 responses

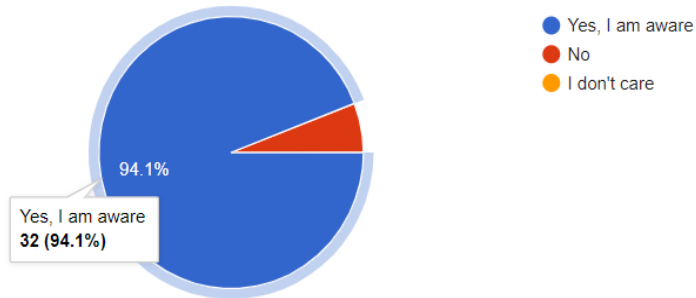


FIGURE 24. Respondent's awareness of paying interest means paying extra money than market price.

In this question there were 34 respondents who gave answers. Respondents were given three options to choose from. "Yes, I am aware", "No", "I don't care". 32 respondents out of 34 replies that they are

aware of paying extra money than market price while they pay interest. 5.9% people says they are not aware. Nobody chose the third option.

If you are a business man or you have intention to start new business, how you have managed your capital or what's your plan to get finance? (You may choose more than one)

34 responses

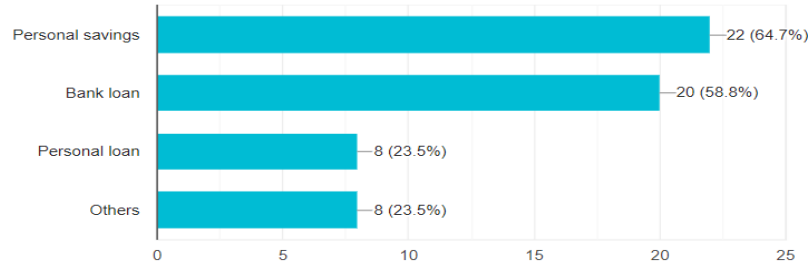


FIGURE 25. Source of capital to start new business

Graph 25 is showing that if respondents want to start new business then how they will manage money to start. Personal savings, bank loan, personal loan or others source were options for respondents to choose from. They could choose more than one option. 34 respondents responded to this question and among them 64.7% chose personal savings. It shows that bank loan (58.8%) is the second choice to start new business. 23.5% respondents also choose personal loan. 23.5% persons also consider other sources to collect capital.

Which issues motivate you more in choosing financing tool?

35 responses

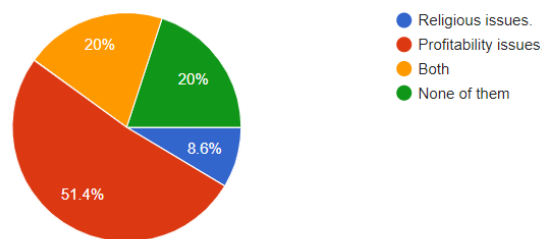


FIGURE 26. Influencing issues in choosing financial tools.

This question was asked to find out influential issues that people take in their consideration before choosing financial instruments. Respondents were given mainly two choices; religious issues and profitability issue. They could choose both or none of them. Graph 26 shows that 51.4% of the respondents said they

got motivated by profitability issues and only 8.6% of the participants choose religious issues. 20% respondents stated that they got motivated by both religious and profitability issues. On the other hand, 20% respondents said they neither got influenced by religious issues nor profitability issues.

If you get any interest free finance, will you take it?

34 responses

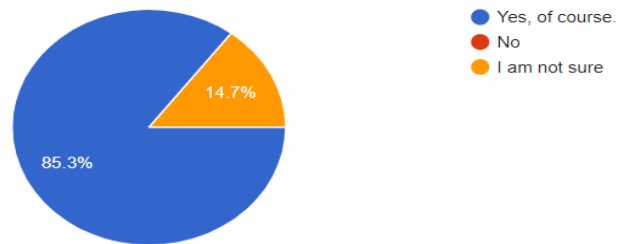


FIGURE 27. Interest free finance

Respondents were asked, if they are offered interest free finance then will they accept or not. They had to choose one option from given three. Options were “yes”, “no” and “I’m not sure”. None of the respondents choose negative option. 85.3% respondents said that they will take interest free finance. 14.6% respondents said they are not sure about this new financing system.

Did you ever search for interest free finance and did you get?

35 responses

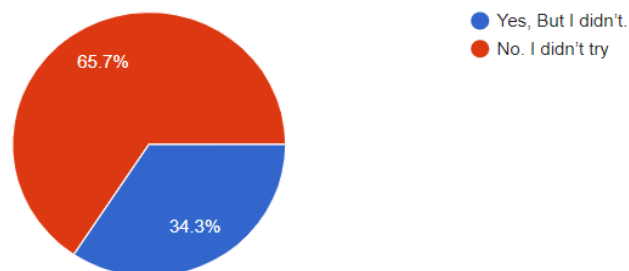


FIGURE 28. Did you ever search interest free finance?

Respondents were asked if they ever search for any interest free finance. According to Graph 28, 65.7% respondents said they never tried and 34.3% said they tried but didn't get any. This question was asked to know that does' people really look for interest free finance or not.

Did you ever hear about Islamic banking and its features?

35 responses

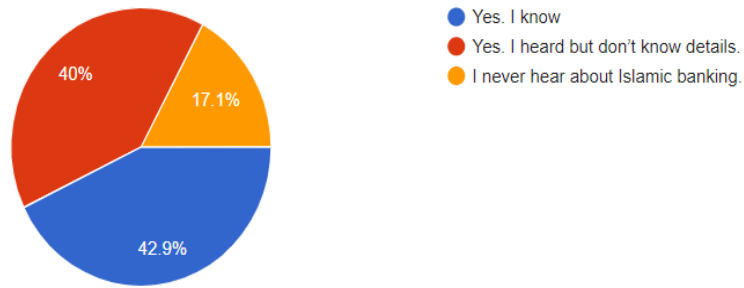


FIGURE 29. Islamic banking and features

There was a question to all respondents that if they have ever heard about Islamic banking and its features. 42.9% gave positive response that they know about Islamic banking and its features. 14 respondents stated that they heard about Islamic banking but they don't know details about it. 17.1% respondents said they never heard about this banking style.

In Islam, interest is prohibited so that Islamic bank offers interest free finance. Instead of taking interest, it uses profit and loss sharing (partnership) method where bank will take the share of business profit or loss. Do you think its better than conventional banking where conventional banking takes interest whatever business have profit or loss situation?

35 responses

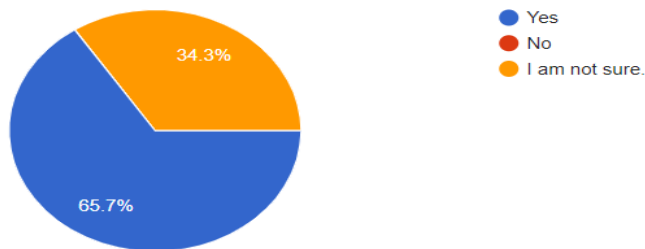


FIGURE 30. Which one is better; conventional banking or Islamic banking regarding interest issues?

In this question, respondents were informed that as Islamic bank follows Islamic shariah and Islamic Sariah does not allow any interest so that Islamic bank offers interest free but profit-sharing finance. Respondents were asked to share their view that which system of banking is better. They were given three options to choose from. “Yes”, “no” and “I’m not sure”. 65.7% respondents said that Islamic banking finance system is better than conventional banking and rest of the respondents (34.3%) stated that they are not sure to tell which one is better.

Islamic bank does not finance in industries which are associated with pornography, alcohol, gambling etc. Do you think it is good for social welfare?

34 responses

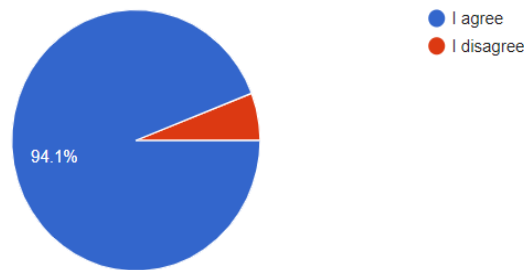


FIGURE 31. Islamic bank social responsibilities.

In this question respondents were informed that Islamic bank does not give loan to any business or individual who is associated with pornography, alcohol, gambling etc. Respondents were asked to share their opinion on this stand of Islamic banking for the betterment of society. 34 respondents answered and among them 32 persons agreed with this stand but only 2 persons had different opinion so that they choose “I disagree” option.

You can deposit money in Islamic banks too for long term or short term but bank will not give you fixed interest like conventional banks give rather Islamic bank will invest your money and give you share of profit generated from that investment. You must carry the share of loss also if that occur. Do you think this is better than conventional banking?

35 responses

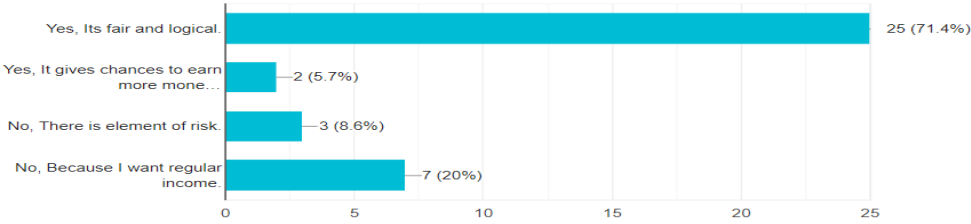


FIGURE 32. Comparison of depositing money in Islamic bank or conventional bank

Respondents were informed that general banking functions of Islamic bank are same as conventional banking. Here people can deposit money same as traditional banks but difference is Islamic bank does not return any interests against customer’s investment rather, they do business with this money and share profit or loss. Respondents were asked to share their opinion. Graph 32 shows that 25 persons thinks that Islamic banking system is fairer and more logical than conventional banking. 2 persons thinks Islamic banking is better because it gives more chances to earn than conventional banking. 8.6% respondent found Islamic banking worse because it has element of risk and 7 out of 35 respondents choose conventional banking over Islamic banking because they want regular income.

Do you think, your locality should have an Islamic bank?

35 responses

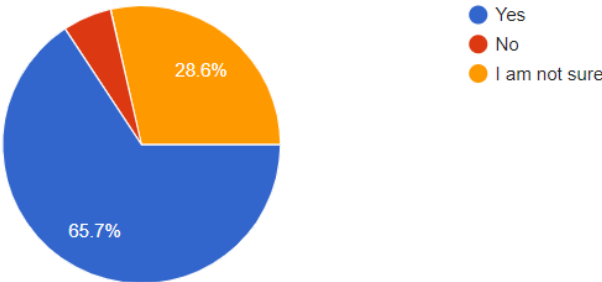


FIGURE 33. Necessity of Islamic bank

Respondents were asked, if they feel that they need an Islamic bank in their locality. Respondents were given three options to choose from. 65.7% of the persons said they think that their locality should have

an Islamic bank. 28.6% of the people said they are not sure about this issue. Rest of the people thought they don't need any Islamic bank in their locality.

If an Islamic bank established here or your current bank starts Islamic banking wing, will you be an account holder?

35 responses

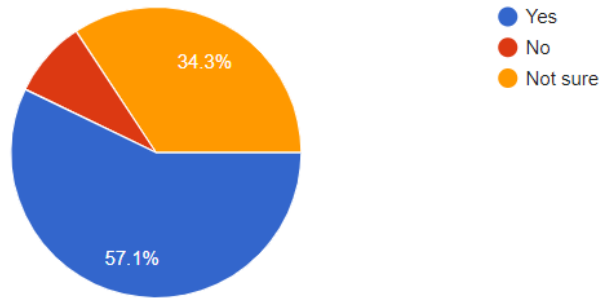


FIGURE 34. Possibilities of being account holder in Islamic bank

Respondents were asked about their interest to be an account holder of Islamic bank in future. They had to choose one option from three given options. According to Graph 34, more than half of the respondents showed interest to open bank account in Islamic bank. 57.1% of the respondents said “yes”. 34.3% of the respondents are stated that they are not sure about opening bank account in Islamic bank. Only 3 persons said they don't have intention to open account in Islamic bank.

If you chose Islamic bank, which factor attracts you more?

34 responses

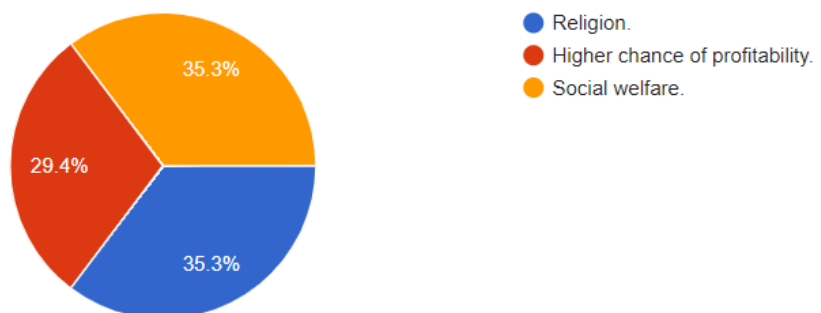


FIGURE 35. Factors to choose Islamic bank.

In last question, respondents were asked to select which one attracting factor attracts them to choose Islamic bank from religion, profitability or social welfare. Graph 35 shows that all three options got almost equal responses. 35.3% people choose Islamic bank because of religion. 35.3% said they choose Islamic bank because of its contribution in social welfare. 29.4% choose Islamic bank because of it has higher chance of profitability.

5.2 Research findings and analysis

28 questions were asked in this research to the people of different occupations. Among the respondents there were students, businessmen, employees. All the respondents are currently living in Finland. In first few questions of this quantitative research respondents were asked some basic questions regarding their gender, age, civil status and family. As this research was about Islamic banking and finance so it was very important to know about respondent's religion. Questionnaire was posted on a Facebook group where members were both foreigner and native Finnish. Among the all respondents, most of the respondents were Muslim and Christian. There were few other respondents with different religion. Most of the respondents marked themselves as moderate and flexible practitioner of religion.

They were asked some questions regarding their connection and activities with bank. Very few of the respondents has personal savings. According to research results, it has appeared that all the respondents has at least one bank account and majority of them take financial support from bank for their housing, car or business purpose. Research results are also showing that here people have a tends of buying household or communication equipment, car etc. in installment and most them are aware that they are paying interests while repaying installments. Results also show that people are aware that they are paying extra money for the same product than market price. This extra money is paid in forms of interest. But all most all the respondents stated that they searched for interest free finance and if they are provided any interest free finance then they will take that facilities. Most of the respondents said they give priority to profitability issues over religious issues while choosing financial tools provided by banks or other financial institutions. Respondents were asked about Islamic finance. Obviously Muslim respondents gave positive responses that they know about Islamic rules over financial activities but some respondents also said they don't know much about these rules and regulations. On the other hand, most of the Christian or people from other religion don't know anything about Islamic finance.

Respondents were enlightened about feature of Islamic banking that this banking system does not allow any kind of interest rather it do business with customer in profit and loss sharing basis. Most of the respondents found this feature is better than conventional one but 34% respondents were not sure which one is better. Respondents were also provided the information that Islamic bank does not finance in pornography, alcohol etc. business. Respondent unanimously agreed that this is very good feature of Islamic banking for the betterment of the society. Last three questions were asked to check the interest of respondents about having Islamic bank in their locality and what is the influential factor in choosing Islamic banking. Most of the respondents said if any Islamic bank established here in their locality or their current bank starts any Islamic banking wing then they will open account there but still there are some respondents who are not sure about opening further account in Islamic bank. Religion, social welfare, profitability all three influential factors got almost equal response from respondents.

5.3 Possibilities of Islamic banking and finance in Finland

Literally there is no use of Islamic banking in Finland right now. In this chapter, I am going to focus on some facts from social and economic perspective which may give us a picture of the possibilities of Islamic banking in Finland in future.

Finland is a country of mixed economy. This country is highly industrialized and its economy is booming day by day. Manufacturing is the second largest economic sectors of Finland. Finland manufactures paper, paper pulps, metal parts, electronics, ships etc. Finland has very balanced business relation with rest of the world. Finland imports petroleum, textile products, food stuffs etc. Favorable financing opportunities attracts more local and foreign investors and entrepreneurs. Finland's foreign trades are increasing and not so far when Finland's trade will reach to Asia, Middle East Asia or Africa.

Most of the Arab countries such as Saudi Arabia, Kuwait, Qatar, Iran etc. have strong Islamic business environment which do not allow interest at all. Even some Asian, African countries such as Malaysia, Pakistan, Tunisia, Nigeria etc. have Islamic banking system. Finland's banking sector and its financing options are now fully based on interest which is totally against of Islamic banking system. It would be much easier to do trade with Arab or Asian Muslim countries if Finland introduce Islamic banking system beside their traditional interest-based banking system. Right now, 2.7% people of Finland's total population is Muslim. Every day because of unstable world political situation more and more immigrants are moving to Europe and most of these people are coming from Muslim countries. As Islam does not allow interest so that religious Muslim people of Finland face difficulty to find interest free loan for their housing or buying properties. It is very difficult for Muslim new entrepreneur to start their business as they couldn't find any financing options in Finland which offers interest free financing. These 2.7% Muslim community could be potential customer for banks if banks provide interest free financing facilities.

Insurance is very important financial instrument. People buy insurance for house, car, business etc. in Finland. Sometimes it is mandatory to have insurance for your properties but insurance is also based on interests here. Terms and conditions of insurance are also contradicting with Islamic law in some cases. So that if Islamic takaful insurance system also been developed then Muslim customers could get more appropriate insurance policy. Muslims are increasing day by day in whole Europe. Immigration from Muslim countries is one of the biggest reasons behind the increase of Muslim community in Nordic countries.

To get these potential customers, financial institutions of these countries such as bank, insurance, leasing companies have already started to develop and offer some products which has some essence of Islamic banking and finance. JAK a Denmark based co- operative bank which has started interest free finance. SWED bank based on Sweden offers non-interest savings account from their one branch for their customers. Norwegian banks are also looking for interest free alternatives. STOREBRAND a Norwegian bank offered “Halal loan” scheme for its customers which follows the Islamic principles and forbids charging interests. FOLKSAM a prominent insurance company of Sweden is working to develop some products which comply with Islamic shariah law. Their business insurance and funeral insurance these two products comply with Islamic law. So, it is clearly visible that neighboring Nordic countries of Finland are already conscious about Islamic banking and they are working on it. It would be wise for Finnish banks, insurance companies to come forward to develop products for Muslim community besides their conventional products. Examples are already set by other neighboring Nordic countries.

By tradition Finland is a multi-cultural country. Historically this small peaceful country is always ready to welcome oppressed people of different countries. From Vietnam war crisis to present unstable middle eastern countries Finland is still giving shelters to millions of immigrants and offering them good life here. Though Christianity is the main and strongest belief here people of different beliefs are treated equally. 2.7% Muslim people are living here peacefully in Finnish society. Finnish people are friendly, open minded and conscious. As this society accepts different ethnicity and culture so native Finnish are always curious to know different cultures. People are aware about security of their health, property and other belongings. So, insurance is very popular here and sometimes it is mandatory also. People do believe on banks and savings. So, overall from the social perspective Finland is not difficult place to introduce Islamic banking but this kind of banking will face big challenges here certainly.

Islamic banking and finance have lots of potential in Finland to grow. But it is very tricky and challenging to introduce a new banking method which is based on religious ethics and norms. Islamic banking follows shariah law which is undoubtedly very strict in many cases and Finnish society is not ready to accept this kind of rules and regulations. Biggest reason behind this is most of the Finnish people are Christian. Atheism could be considered as second largest belief here. Only 2.7% Muslim people live in Finland. (Lyons 2019.) All are not good practicing Muslim even. In my survey surprisingly I got many Muslim respondents who responded that they are moderate Muslim and flexible in practicing religion. So, initially Islamic banking will get very small target customer group which is not be economically viable to run banking business. Islamic bank does not allow interest but in Finnish people don't take it negatively. Islamic bank does not promote drinking alcohol but Finland is a country where in almost all

grocery shops sell alcoholic product. It will be very difficult for Islamic bank to do business with these grocery shops even. Islamic banking does not allow gambling but in Finland betting, playing slot machine, lottery etc. is very common. These are the part of this society and culture. It is clearly understandable that pushing Islamic law in legal western environment will not be easy for Islamic banking. One of the biggest problems of Islamic banking will face here that there are no established guidelines for auditing, accounting, regulatory practices which will suit for Islamic banking.

6 CONCLUSION

Bank and its banking procedure are always topics of interest to the author. The author has been grown up in Bangladesh where 90% of people are Muslim. Though it's a Muslim majority country but Bangladesh is a country of mixed economy. People may find both traditional banking and interest free Islamic banking financing facilities there. Living here in Finland last seven years the author has found there is no way of getting interest free financing system from bank or any other institutions. Surprisingly author has found that most of the local people even don't know about Islamic interest free banking and financing. The author got inspired to write this thesis which will help its reader to know more about this kind of banking system.

The aim of this thesis was to introduce Islamic banking and finance as an alternative of traditional banking process. The author set an objective of finding the prospects of Islamic banking in Finland. It was not so smooth journey for author to find out offline resources. But online resources were enough to carry on. In the process of writing this thesis author has gone through so many books, articles, podcasts and blogs regarding Islamic shariah law and shariah based economy, Islamic banking and traditional banking. After going through all the Islamic banking history, the author has found this banking system has all the notions and practices are same as traditional banking but strict about some issues such interest, gambling etc. Its main goal is not generating profit for its stakeholders. Rather this banking process deals with its customer on profit/loss sharing methods which helps to remove poverty and inequality of the society. That is how Islamic banking wants to contribute in real economy. The aim of this research was to introduce Islamic banking and financing. The author believes that to realize Islamic banking, it is very important to know about Islamic economy and Islamic shariah principles first. In chapter three author has given description of Islamic economy and its diversity from other economic systems. He dedicated this whole chapter focusing on important prohibitions and ethics of Islamic economy, its shortcomings and obstacles. The author also has given a brief description of global existence of Islamic banking and financing so that reader will get a clear idea of how this banking system day by day is expanding and developing as an alternative of banking and financing.

In chapters four and five, the author has introduced different products of Islamic banking and financing. It was amazing to know and bring forward to readers the historical background of evolving bank from ancient time to modern era. Though operational activities of both Islamic bank and conventional banking are similar but author marked the distinguishing facts between traditional banking and Islamic banking

also. Besides the English terms, author has used Arabic terminologies of different banking and financing products of Islamic bank or other financing institutions. One of most popular financing products of Islamic financing is Islamic bond which is commonly named Sukuk. Global demand of Sukuk is rising day by day worldwide. Author spent a significant time to collect information regarding Sukuk and brought a brief description of Sukuk, its structure and variety. Takaful insurance is another growing demandable financing product of Islamic finance which are operated under three models. Author has given description of wakalah, mudaraba and hybrid model of takaful insurance.

A clear aim of introducing Islamic banking and its financing products was set at beginning of the thesis. Author believes the aim is successfully accomplished and reader will get enough information for comprehensive reading. Learning from all these theories and information author got a solid guidance to conduct an academic research to accomplish the thesis objective of finding the prospect of Islamic banking and financing in Finland. For this thesis, author has found quantitative research is best suited. Author thoughtfully set a quantitative research framework and surveyed on local people. He got response from the people of different profession, age, beliefs and this variation of respondents helps to get an unbiased fruitful research result. From small business owner to big company owner, from student to banker there were so many respondents from different professions who gave most realistic data for this research. Respondents from different ethnicity helped author to understand the famous Finnish multicultural society. As the objective was to find the prospect of Islamic banking, it was very important to understand the thinking and feelings of local people. Response from the people of different age group and religion gave a satisfactory result to the author.

To conclude, after Christianity, Islam is the second most practiced religion in the world. Over 20% of world population are Muslim and this number is growing day by day. Like other European countries, in Finland Muslim community is growing and they are actively involving in business activities. They search financial support from bank for starting new business. They also look for house loan, car loans etc. But because of strict religious command regarding interest, it is very hard for these people to manage finance from Finnish bank or any other financial institute. In this era of globalization, even banks are facing competitions. With the blessings of internet, multinational banks are entering new markets and trying to grab new customers. The demand of interest free banking is growing day by day to the Muslim community of Finland. It will be very unwise for existing local banks to leave this group of customers untapped.

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APPENDICES

Survey questions

1. You are
 - Male
 - Female

2. Would you please state your age?
 - 20-30
 - 31-40
 - 41-50
 - Above 50

3. What is your religion?
 - Christianity
 - Islam
 - Hinduism
 - Judaism
 - Atheism
 - Others

4. How religious you are?
 - I strongly follow all rules and norms of my religion.
 - I try my best to follow rules.
 - I am moderate and flexible.
 - I don't care

5. What is your profession?
 - Student
 - Businessman
 - Employee
 - Unemployed

6. What is your civil status?
 - Married
 - Single
 - Divorced
 - Widow
 - Living together

7. Do you have children?

- Yes
- No

8. Are you a Finnish citizen?

- Yes
- No

9. How long you are living in Finland?

- Less than 2 years
- Over 2 years but less than 5 years
- Over 5 years
- I born in Finland

10. Do you have any personal savings?

- Yes
- No
- I have plan to save

11. Do you have any bank account?

- Yes, I have one
- Yes, I have more than one
- I don't have

12. Did you ever take any bank loan? If your answer is yes, select the purpose. You can choose more than one options.

- No, I didn't take bank loan
- Yes, I took for housing
- Yes, I took for car
- Yes, I took for education
- Yes, I took for business
- Yes, I took for travelling
- Yes, I took for health care

13. What kind of household you are living?

- I owned the house/apartment
- I rented the house/apartment
- I am living in shared house/apartment
- Living as guest

14. If you are owner of a house/apartment, how you have managed the money to buy it?

- Own savings.

- Pensions money.
- Bank loan. I pay back a certain amount each month.
- I am not owner.

15. Did you ever buy any household or communication equipment (Tv, mobile phone, washing machine etc.) or vehicles in installment?

- Yes
- No
- I always buy at once

16. Do you pay interest also while repaying installments?

- Yes
- No

17. If you pay interests, are you aware of that you are paying extra money than market price?

- Yes, I am aware
- No
- I don't care

18. If you are a businessman or you have intention to start new business, how you have managed your capital or what's your plan to get finance? (You may choose more than one)

- Personal savings
- Bank loan
- Personal loan
- Others

19. Which issues motivate you more in choosing financing tool?

- Religious issues.
- Profitability issues.
- Both
- None of them

20. If you get any interest free finance, will you take it?

- Yes, of course.
- No
- I am not sure.

21. Did you ever search for interest free finance and did you get?

- Yes, But I didn't.
- No, I didn't try.

22. Did you ever hear about Islamic banking and its features?

- Yes. I know
- Yes. I heard but don't know details.
- I never hear about Islamic banking.

23. In Islam, interest is prohibited so that Islamic bank offers interest free finance. Instead of taking interest, it uses profit and loss sharing (partnership) method where bank will take the share of business profit or loss. Do you think it's better than conventional banking where conventional banking takes interest whatever business have profit or loss situation?

- Yes
- No
- I am not sure.

24. Islamic bank does not finance in industries which are associated with pornography, alcohol, gambling etc. Do you think it is good for social welfare?

- I agree
- I disagree

25. You can deposit money in Islamic banks too for long term or short term but bank will not give you fixed interest like conventional banks give rather Islamic bank will invest your money and give you share of profit generated from that investment. You must carry the share of loss also if that occur. Do you think this is better than conventional banking?

- Yes, It's fair and logical.
- Yes, it gives chances to earn more money.
- No, there is element of risk.
- No, because I want regular income.

26. Do you think, your locality should have an Islamic bank?

- Yes
- No
- I am not sure.

27. If an Islamic bank established here or your current bank starts Islamic banking wing, will you be an account holder?

- Yes
- No
- Not sure.

28. If you chose Islamic bank, which factor attracts you more?

- Religion.
- Higher chance of profitability.
- Social welfare.