Towards a new model of productive Islamic financial mechanisms

Chokri Kooli*

Lusail University,
Zone 69, St 100, Building 333, Lusail, Doha, Qatar
Email: ibm4chk@yahoo.fr
*Corresponding author

Mohammed Shanikat and Raed Kanakriyah

Faculty of Business,
Al-Balqa Applied University,
Amman, Jordan
Email: mohammed_shanikat@bau.edu.jo
Email: raedkkk1967@yahoo.com

Abstract: The challenge for Islamic finance institutions is to find solutions and develop programs helping to invest their funds in supporting projects, SMEs, and entrepreneurship. In this paper, a documental collection, revision, and analysis were performed to review the efficacy of the main mechanisms used by Islamic financial institutions to finance their customers. The central research question consists of examining whether the actual offerings of Islamic finance mechanisms reflect the positive value and impact of Islamic finance to the economy and society. Among other things, the results showed that some Islamic financial institutions developed several types of financial mechanisms that are majority oriented through corporate finance. The research turned off with the common assumption stipulating that murabaha deals more with consumer credit rather than corporate finance. Findings showed that out of three programs of murabaha, two are oriented through corporate finance, and the third one could be assimilated as a positive investment even if it provides consuming financing. The research suggests that Islamic financial institutions must continue their innovating efforts to shift the offer of Islamic financial programs and products from consumer to corporate finance. Findings are supported by the development of a new model of productive Islamic finance mechanisms.

Keywords: Islamic finance mechanisms; best practices; new model; corporate finance; sustainability.

Reference to this paper should be made as follows: Kooli, C., Shanikat, M. and Kanakriyah, R. (2022) 'Towards a new model of productive Islamic financial mechanisms', *Int. J. Business Performance Management*, Vol. 23, Nos. 1/2, pp.17–33.

Biographical notes: Chokri Kooli is an Assistant Professor of Business at the Lusail University Qatar. He was also Visiting Assistant Professor at The Telfer School of Management, University of Ottawa, Canada. He obtained his PhD in Economics from the School for Advanced Studies in the Social Sciences (EHESS). He performs research in public policy, economics of development, economics of education, ethics, labour, gender and health economics.

Mohammed Shanikat is an Associate Professor at The Balqa Applied University, Jordan. He received his PhD in Accounting from the University of Wollongong, Australia. His research has been published in the *Australasian Accounting, Business and Finance Journal*, and *International Journal of Business and Management*. His research interests are in the areas of auditing, occupational fraud, corporate governance and forensic accounting.

Raed Kanakriyah is an Assistant Professor of Accounting at The Balqa Applied University, Jordan. His research interests are in the areas of auditing, occupational fraud, corporate governance and forensic accounting.

1 Introduction

To achieve the objectives of the sharia, the natural path of Islamic finance institutions must be a non-commercial investment (Kahf, 2004; Hayat and Malik, 2014; Jouti, 2019). Nowadays, this reality is too far from being observed. The abundant liquidity available to these institutions is mainly used with commodity trade. Technically, the Islamic banking system works differently from the conventional one. Financing is mainly directed towards consumer credit rather than corporate finance (Iqbal and Llewellyn, 2002; Ghaffour, 2018). Islamic financial institutions use Islamic tools based on the principle of sharing profits and losses. These tools are challenging to implement in the context of microfinance because they require a long-term commitment in the form of technical and managerial assistance that increases the cost of implementing it (Laib and Abadli, 2018). This explains why Islamic finance institutions focus on debt contracts (mainly murabaha 'sales contract') over participative instruments like musharaka 'partnership' and mudaraba 'fund management' (Yousef, 2004; Azmat et al., 2015; Nouman et al., 2018). In such regard, nowadays, Islamic finance institutions are perceived as mere imitations of conventional finance (Khan, 2010; Beck et al., 2013; Hasan, 2015; Zabri and Mohammed, 2018; Hamour et al., 2019).

Researchers like Ghaffour (2018) and Jouti (2019) draw the attention of policymakers and Islamic financial institutions to improve the offering of Islamic finance programs significantly and to build a sustainable business model. They also recognise that these institutions need to implement changes that reflect the positive value and impact of Islamic finance to the economy and society (Alserhan et al., 2018). These financial institutions need to implement a wave of innovations into their practices, operations, services and products. To get out of this funding crisis, some Islamic banks agree to finance projects on a fair partnership basis rather than on a usurer basis. Such practices will enable the realisation of innovative projects with high potential for development (start-ups) and will create millions of jobs.

In this perspective, the actual research will focus on the review of the most efficient mechanisms used by Islamic financial institutions to finance their customers. This research aims to explore the main mechanisms of financing used by Islamic financial institutions. The central research question consists of examining whether the actual offerings of Islamic finance mechanism reflect the positive value and impact of Islamic finance to the economy and society. An internet-based data collection and research are going to be performed to explore the main tools used by global Islamic financial institutions. The research objectives consist of:

a test the efficiency of the three main Islamic financial tools

b verify their popularity among Islamic financial institutions.

c this study will also present some successful experiences that deal with the reviewed mechanisms

d will determine whether financial institutions need to implement a wave of innovations into their practices, operations, services and products.

e finally, the research will propose a new model of productive Islamic finance mechanisms.

After the literature review, a documental collection, revision, and analysis are going to be performed to review the efficacy of the main mechanisms used by Islamic financial institutions to finance their customers. The last part of the paper will focus on the lessons learned and make conclusions.

2 Conceptual framework

The essential reason preventing Muslims from dealing with conventional banks is religious. For Muslims, it is forbidden to make financial transactions that are based on interest generation. For this reason, Muslims deal mostly with Islamic financial institutions. In concordance with Islam's commands that apply the welf..are and betterment of human beings, Islamic banks play the role of financial intermediation for society. Therefore, as a system economically feasible and financially rewarding, Islamic financial economics fulfils the social moral, ethical and religious obligations (Memon, 2007; Jouti, 2019; Al Serhan and Alobaitha, 2013; Hamour et al., 2019). From his side, Van Schaik (2001) admits that Islamic banking is "a form of modern banking based on Islamic legal concepts developed in the first centuries of Islam, using risk-sharing as its main method, and excluding financing based on a fixed, pre-determined return." Osman and Ali (2008), Aida and Imen (2014) and Safi et al. (2020) argued that the main factors explaining the use of Islamic banking products are typically linked to religious beliefs. In such regard, their research showed that 85% of the entrepreneurs interviewed choose Islamic financing as it is based on Islamic principles. From their side, Karim et al. (2008) specified that 20% of the Algerian micro-entrepreneurs refuse to seek loans for religious reasons. Respectively, 43% of Syrians denied loans for the same religious reason.

Islamic financial institutions do not satisfy only the religious aspirations of the customers; they also tend to maintain an acceptable level of socio-economic growth (Boukhatem and Moussa, 2018) by conveying more considerable justice between stakeholders (El-Galfy and Khyiar, 2012). Besides, for Usmani (1999) and Kaleem and Isa (2006), by trying to optimise the level of socio-economic justice between people, Islamic financial institutions contribute to the satisfaction of some needs of the society. For example, through the increased possibility of access to the Islamic financing system, poor people improve their chances of socio-economic integration (Rahman, 2007; Jouti, 2018).

Contrarily to the first movement (Usmani, 1999; Karim et al., 2008; Kaleem and Isa, 2006; El-Galfy and Khiyar, 2012; Boukhatem and Moussa, 2018) that sees Islamic financial system as the primary contributor of the socio-economic growth, some researchers discredited such movement. Thus, Samad et al. (2005) admitted that, theoretically, as financial products, mudaraba and musharaka contain specific characteristics that show them as appropriate tools for financing entrepreneurs' projects and present them as viable alternatives to the conventional interest-based financial system. In practice, the same authors discovered that in Bahrain and Malaysia, the use of mudaraba by Islamic financial institutions represents only 5% of the total financing, and the average of musharaka is less than 3%. As for murabaha, the research showed that it is the most popular tool and dominates all other modes of Islamic finance by displaying an average of 82.68% of total financing.

From their side, Abou-Gabal et al. (2011) observed a limited penetration of Islamic finance to the micro, small, medium enterprises (MSMEs) market. For them, even though Islamic banking is mostly based on profit and loss sharing contracts like mudaraba and musharaka, most financial institutions avoid relying on these forms of contracts due to their attributed risks. Therefore, as the Islamic financial institutions deal with MSME, the mode of management and governance is generally traditional, informal and does not generate a clear picture of the efficiency of the business. Also, for the researchers, the non-popularity of the model of profit and loss sharing partnerships with MSMEs is linked to its specificities.

As previously explained, the mechanisms of Islamic finance are based on the principles of trust and confidence that need time to be established. The majority of Islamic finance institutions do not accept the idea of exposing their funds to additional risks and losses and consequently abide by dealing with MSMEs based on the principles of mudaraba and musharaka. In this regard, Kayed (2012) studied the entrepreneurial role of profit-and-loss sharing modes of finance. He observed that Islamic banks primarily finance activities of businesses that are not really in need. He also notified that Islamic financial institutions did not play their expected role in boosting entrepreneurship and supporting entrepreneurs, emerging industries, and the agricultural sector. Kayed (2012) argued that implicitly, the Islamic financing institutions did not promote the emergence of the energetic small and medium-sized enterprise (SME) sector. Contrarily, these institutions encouraged and facilitated the rise of a consumption behaviour inside the Muslim society. Kayed (2012) admitted that the non-spread of musharaka as propulsive of the entrepreneurship is not related to the specificities of the mechanism as it is. Responsibility and potential failures of the system relay mainly on the attitude and the behaviour of Islamic financial institutions.

Finally, Kayed (2012) stressed the need to conduct further empirical and consistent research to conceive new mechanisms that can push the Islamic banking system to develop entrepreneurship. He recommended that researchers and Islamic financial institutions assimilate, capitalise, share, and build on the successful experiences of diverse Islamic countries with Islamic banking and entrepreneurship development.

3 The main mechanisms used by the Islamic financial institutions

Despite the shortest experience of financial institutions in dealing with shariah-compliant products, several tools of the financing were developed. El-Hawary et al. (2004) identified two types of contracts that are mainly used through economic actors. murabaha, musharaka, ijara, istisna, and bay salam are the main components of the transactional agreements and are always used to exchange, trade, and finance economic activities. On the other side, mudaraba, kafala, Amana, takaful, wikala, and ju'ala constitutes the main mechanisms of the second type of contracts qualified mainly to play the role of intermediation. These contracts serve primarily to facilitate the efficient and transparent execution of transactional contracts (El-Hawary et al., 2004). Despite the existence of a variety of types of Islamic financial mechanisms, only three of them are popular regularly and used continuously. In this research, the review of Islamic financial tools is only limited to the main ones that are namely: murabaha, musharaka and mudharaba. The web-based study was performed over the Islamic financial institutions that perform open data. The research did not focus on a specific country; it was accessible through the world, including Muslim and non-Muslim countries.

3.1 Murabaha (sales contract)

Islamic banks use the transaction contracts murabaha to buy commodities and selling them to clients who agreed to pay the bank the negotiated price over instalments paid on terms (Alsayyed, 2010; Safi et al., 2020). To respect the main economic Islamic rules, the contract of sale or agreement needs to specify the purchase and selling price, other costs, and the profit margin. It also needs to be conducted based on honesty and transparency. The murabaha sales contract is considered nil in case it is made based on the fiduciary sale. When contracting with a customer, the bank is only compensated for the time value of money inside the contracted terms. Murabaha sales contract takes the form of fixed-income loans and serves for the purchase of a tangible asset. The review of operations made by an essential number of Islamic finance and banking institutions lead the researcher to distinguish three types of murabaha.

3.1.1 Murabaha with high value-added

A considerable number of Islamic banks believe in the importance of financing SMEs because they are a vital engine of economic growth. SME's are also the significant and central propulsor of the economy. At the same time, the prosperity of the economy and society directly influences the effectiveness and well-being of the financial sector. In doing so, Islamic financial institutions have developed products related to what we will call murabaha with high value-added (MHVA). This kind of murabaha helps SMEs to preserve their working capital and efficiency of cash flow. In such regard, we consider that MHVA as Islamic finance contract by which the bank buys the new goods chosen by the customer then resells it to the customer with a payment facility and a profit. The settlement is made in equal instalments over a specified period. The difference between the classical murabaha and the MHVA reside like the customer and the activity in which he is involved.

In the classical murabaha, the financial institution finances the buy of goods or services that are going to be used for a personal purpose and that have a limited economic value-added. Under the MHVA, the financial institution finances the buy of goods or services that are going to be used for a professional purpose and that have a high economic value-added. Meezan Bank in Pakistan created a variety of products facilitating the purchase of assets such as equipment and vehicles that are used for a commercial purpose by people aged between 21 and 45 years with entrepreneurial potential. One of their products is called 'agricultural financing' that offers young farmers the opportunity to finance the purchasing of agricultural products (Meezan Bank, 2020a). Meezan Bank

(2020b) in Pakistan developed another product named 'Car Ijarah', it also facilitates the finance of the purchase of vehicles like Bolan and Ravi that are going to be used as taxi, delivery vans and in similar activities.

Qatar Islamic Bank (2020) created a product named real estate finance under the concept of murabaha. This mechanism of financing helps organisations and individuals to invest in commercial real estate assets. In Tunisia, an Islamic financial institution named Zitouna Tamkeen (2020) created a program facilitating financing the purchase of professional means of transport. It allows skilled, experienced, and unemployed persons to buy commercial engines like small and large taxis and Freight transport. Also, under the murabaha tool, Zitouna Tamkeen (2020) Islamic financial institution developed an innovative program facilitating the financing of small entrepreneurs involved in the food industries. By doing so, these young entrepreneurs will have the opportunity to buy merchandise and equipment that will help them to run a small business. This program target manufacturers and vendors of food products, operators of food travelling vehicles, small restaurants and snacks, small units, and groups of manufacturing and distribution of traditional food products.

Another product developed by Zitouna Tamkeen (2020) offers finance to craftsmanship. Members of a skilled trade like shoemakers, barbers, hairdressers, and electrical appliances or electronics Repair technicians get the opportunity to purchase tools and various equipment through the Islamic financial institutions. In 2018, less than 36% of the volumes of Zitouna Tamkeen (2020) funds were allocated to finance individual activities. In counterpart, more than 64% of the micro-finance institution portfolio was dedicated to finance economic empowerment projects (Zeitouna Bank, 2019c).

3.1.2 Murabaha in services as a future investment

The second type of Islamic financial products is also offered to finance the buy of services conjugated in the education fees. Islamic banks such as Al Baraka or Zitouna developed a product consisting of financing education (Al Baraka Bank, 2020; Zeitouna Bank, 2020). This financing can be assimilated to a Qard Hassan or funding at a 0% rate by the negotiation of discounts in the interest of the final customer. The transaction is based on a financial solution following the principles of Islamic finance, through the technique of selling services. Through this technique, the bank makes a partnership agreement with the educational institution. Then, the bank makes a contract for the resale of a package of educative services to the customer. In other terms, the financial institution purchases the service consisting of a place in the educative program at the educative institution and resells it to the client for payment over a period agreed between the two parties. Financing studies through murabaha is considered as a future investment with high value-added. Gary Becker, through the human capital theory, recognised education as an investment, and those who pay for their studies expect to get a return on investment (Kooli, 2017).

Through the human capital theory, education is assimilated as an investment that will potentially generate profits. This investment can generate economic benefits such as wage gain (Becker, 1964, 1994; Mincer, 1974), economic growth (Mincer, 1958; Romer, 1986; Lucas, 1988) or the improvement of productivity. It can also provide socio-medical gains (Becker, 1965; Grossman, 1972; Piatecki and Ulmann, 1995) and influence the situation of women, personality of learners, family composition (Becker, 2009), health

(Brian, 2007) and nutritional status. In such regard, this research considers that financing studies under the murabaha contract are regarded as buying investment services rather than consuming services.

3.1.3 Murabaha with limited economic value-added

The third type of murabaha serves to buy real assets that are going to be used on a personal basis. In such regard, customers conclude murabaha transactions with Islamic financial institutions (Al Baraka Bank, 2019a; Zeitouna Bank, 2019a; Kuwait Finance House, 2020; BRI Syariah, 2020a; CIMB, 2020) to by consuming goods that are going to be used in personal basis and to satisfy own, socio-cultural, emotional and spiritual needs. Doing so, we were able to notify that under this umbrella, Islamic financial institutions make murabaha contract with customers and allow them to buy or improve their home. They can also buy a personal car, a means of transport, home appliances, luxury goods, and many other consumer goods. We also notified that Islamic institutions finance the purchase of tourist or spiritual trips like Hajj and Umrah (Al Baraka Bank, 2019b; Zeitouna Bank, 2019b; BRI Syariah, 2020b). The process of financing the purchase of these three types of good is safe and respect sharia rules. However, the essence and finality of making murabaha contract to buy consumable products may be questionable. Contrarily, the first and second types of murabaha transactions, facilitating buying consumable goods that serve personal finalities, are economically and ethically dubious.

3.2 Musharaka (partnership)

In this formula, financial institutions became partners of a project with clients or entrepreneurs. Both parties will get a permanent or diminishing fixed share in the capital. Both parties will also share potential prorated profits or losses. An excellent example of musharaka between Islamic financial institutions and private projects comes from Sudan. Wad-Ballal Cattle Fattening Project is conceived and implemented by the Wad-Ballal Company and financed by the IRADA Company specialised in Islamic microfinance (Bank of Khartoum, 2020a). This partnership contract was established for five years and under which the financial institution IRADA contributed with $420,000 and shared 94% of the actions. From its side, Wad-Ballal Company owed 6% of the partnership actions. The financial contribution will help to create an optimal fattening environment. The project aims annually to produce 7,000 calves that are going to be exported. This project will, directly and indirectly, influence around 500 persons through provision on financial services.

The application of the principle of musharaka in financing projects and entrepreneurs is not only limited to SMEs. A good example comes from the Sultanate of Oman, where the financial institution Meethaq is contributing to the financing of important projects. Based on diminishing musharaka, this institution signed, in 2016, a financial agreement with Oman Air for the purchase of a Boeing 787 Dreamliner (*Times of Oman*, 2016a). The same Islamic financial institution also signed, in 2015, another agreement with Oman Shipping Company for the refinancing of three oil tankers worth 78 million Omani rials (*Times of Oman*, 2015).

Meethaq for Islamic finance also made a partnership with Sebacic Oman SAOC to finance 60% of the estimated capital expenditure of $250 million of the Omani acid project. The project is expected to create 700 direct new opportunities for jobs. Sebacic acid is principally used to make different derivative products of nylon, oil, polymer and plastic (Duqm e-newsletter, 2015).

Another example showing the capacity and the ability of Islamic financial institutions to stimulate the economy by providing financing facilities for large enterprises comes again from Oman. Meethaq for Islamic finance made in 2016 an agreement with Ceramic Al Hael Company International (CACI). The deal made under the principle of diminishing musharaka will lead to the construction of a ceramic and porcelain factory in the Sur industrial area over a 200,000 sqm land and will cost 40 million Omani rials. This project will lead to the creation of more than 500 opportunities of job and is expected to make a useful contribution to the sultanate's industrial sectors and markets (*Times of Oman*, 2016b).

Another innovative program focusing on establishing a financial partnership with artisans' specialist also needs to be highlighted. The Jordan Islamic Bank (2020) offers experienced, highly qualified people and artisans the possibility of the partnership of their projects following the Islamic sharia principles. By doing so, Jordan Islamic Bank (2020) proposes a prorated share of profits under the form of permanent musharaka. Jordan Islamic Bank (2020) also encourages the establishment of a diminishing musharaka partnership that will finish in Ownership. Under this form of financing, the Jordan Islamic Bank (2020) can partially or entirely finance the project and obtains in counterpart a relative ratio from the net realised profit. At the end of the financing period, the other party owns the project. By focusing on such a category of liberal professions, the bank allows skilled and generally freshly graduated the opportunity of doing business. Such a possibility is always unreachable by those that integrate such a category because they are newly graduated and still lack the necessary funds to run a business.

Qatar Development Bank (QDB, 2020) is one of the critical Islamic financial institutions that believe in youth's visions. The bank tends to recognise their achievements and support them through their investments. A sharia-compliant program is aiming to encourage young Qatari entrepreneurs named 'ITHMAR (seed funding)'. This program offers to entrepreneurs' technical and financial support for start-ups. Through a reciprocal musharaka agreement, the program could provide up to 90% of the financing of the project. From his side, the entrepreneur can participate with a minimum of 10% of the capital. Through this program, Qatari entrepreneurs who are above 18 years old can get up to QAR0.9 million financings and needs to invest them in innovative sustainable and scalable businesses. Projects operating in trade, real estate, and contracting are excluded from the program (QDB, 2020).

3.3 Mudaraba (fund management)

It takes the form of an investment contract linking the fund's provider and the expertise executive. By making a mudaraba or fund management agreement, the two partners participate in the financing and execution of a specific limitation in the time project. In such a case, both parties agree about the proportional distribution of profit. The loss is also shared between them, as the investor could lose his capital, and the manager can potentially lose his time, efforts and involvement. Through intensive research among Islamic financial institutions, we notified that only a few institutions deal with the mudaraba mechanism.

A good example comes from Sudan. IRADA Microfinance Islamic institution contributes to the sustainable economic development of the Sudanese poorest people. It supports Sudan's most deprived and marginalised people by helping them to start their micro businesses. IRADA Microfinance developed an outstanding mudaraba smart financial product to develop a modern agricultural sector. The financial institution was involved in the Abu Halima Greenhouses Project (Bank of Khartoum, 2020b). The idea consists of providing business opportunities for 125 graduates and their families by investing in the implementation of 25 productive greenhouses. The project seeks to produce rare products around the whole year with an optimal capacity of production settled at 1,200 tons of vegetables annually. From one side, this project will allow the development and diversification of the field and crops of greenhouses agriculture. On another front, it will participate in the Increase of the income of project beneficiaries and improve the national economic indicators. In such regard, the project is estimated to cost \$1,553,816. The investor will share 71.5% of the benefits, and the capital and the investment managers will share 28.5% of the profits.

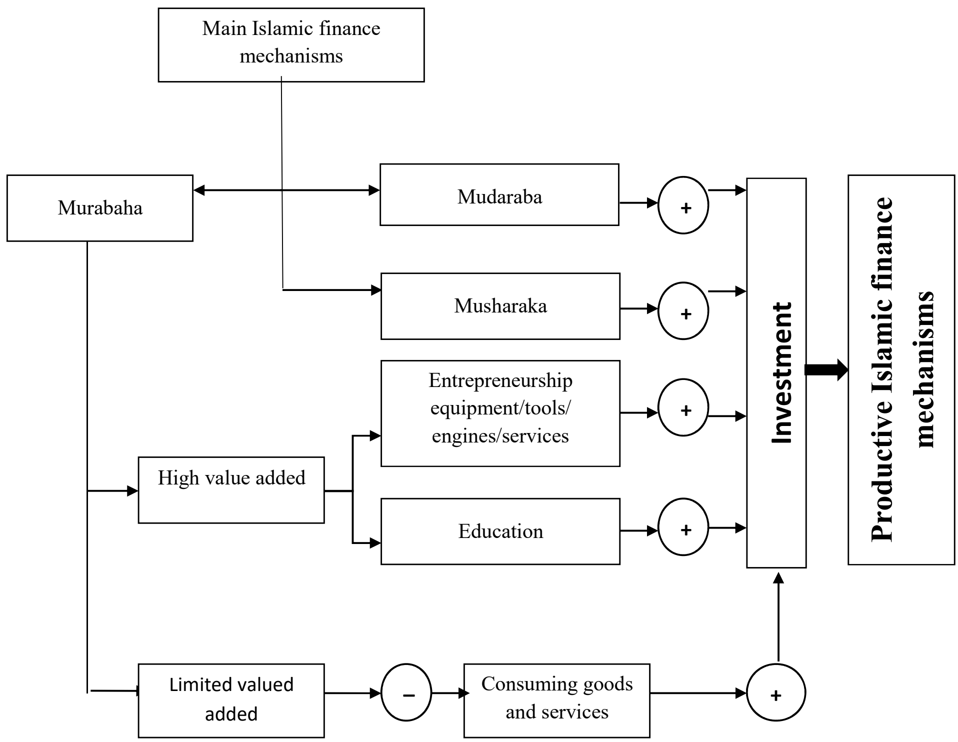
To achieve food security and sustainability of natural resources in Saudi Arabia, the local Agricultural Development Fund (ADF), in cooperation with the Saudi Investment Bank (SAIB) launched an innovative program named 'Secured Financing Program'. Through this program, the ADF established a partnership with commercial banks to provide financial products to institutions, companies, or individuals wishing to import firewood, agricultural equipment, or green feed (Saudi Investment Bank, 2020). The fund provides short-term credit facilities in the form of indirect loans permitting the financing of working capital projects. In such regard, the ADF shall be the guarantor of the borrower to obtain the funding from the commercial bank in the form of documentary credit for the importation. When the product reaches Saudi Arabia, the credit is transferred to a murabaha loan by the refinance of the credit document by the commercial bank. This kind of partnership between the government and private sectors will undoubtedly contribute to the development of the economic and agricultural sector in any country.

3.4 Model of productive Islamic finance mechanisms

The main mechanisms of Islamic finance are mudaraba, musharaka and murabaha. Through the review of the experiences and best practices of the Islamic financial institutions, the researcher noticed that the first and second mechanisms are economically productive as they stimulate investment and contribute directly to the economic development of nations. The third mechanism of Islamic finance called murabaha is partially mitigated. The research findings showed that out of three programs of murabaha, two are oriented through corporate finance, and the third one could be assimilated as a positive investment even if it provides consuming financing.

Murabaha, in some instances, is used as a mechanism stimulating entrepreneurship through facilitating the purchase of tools, engines, services, and others. In such a way, murabaha is perceived as an added value mechanism because it helps to facilitate entrepreneurship and stimulates investment. In another case, murabaha is used to buy consuming services like financing studies. Researches showed that spending money in educative and learning activities constitutes an investment that will potentially generate positive values at the economic and social levels. In such regard, the use of murabaha in financing education is highly encouraged. The third type of murabaha facilitates the emergence of programs that are sharia-compliant, but that do not generate high economic value-added. It always facilitates the purchase of goods and services that are typically consuming. In a certain way, these programs are too far away from serving the essence of the Islamic finance spirit.

Figure 1 Model of productive Islamic finance mechanisms



Source: Personal work

These limited value-added Islamic finance programs can be seen as positive in case they are perceived as tools helping to generate resources that can be used as investment programs that would support the mudaraba and musharaka mechanisms (Figure 1). More specifically, the consuming murabaha becomes highly valuable in case it serves to finance the purchase of local products or services that are funded through mudaraba and musharaka. For example, through murabaha, financing the purchase of cars that are locally manufactured will generate several economic and social positive outcomes. Besides, encouraging and funding local tourism will transform the visible consuming murabaha to with high value-added murabaha. Financing local tourism will generate local revenues to hostels, shops, transporters, and will help to create new opportunities for employment. Thus, a new concept of responsible consuming murabaha emerges and becomes highly encouraged. This new concept relays mainly on the approach followed by Jouti (2019) in which he suggested the integration between traditional Islamic social, financial institutions and commercial financing. In such regard, Jouti (2019) indicates that both the conventional and the new model of Islamic financial institutions need to improve their effectiveness. Consequently, Jouti (2019) considers commercial financial institutions to constitute a real opportunity to leverage further funds, and accordingly, co-finance or refinance the projects of traditional Islamic social, financial institutions.

Doing so, the responsible consuming murabaha, in its commercial spirit, is considered as a necessary mechanism that could generate the sustainability of the Islamic financial institutions.

4 Discussion

The aim of this research consisted of reviewing the efficacy of the main mechanisms used by Islamic financial institutions to finance their customers. The central research question of the study consists of exploring whether the actual offerings of Islamic finance mechanisms reflect the real spirit of Islam and consequently positively influence the economic system and society.

The research revealed one dominant theme related to the variability of mechanisms used by Islamic finance institutions. The central proposition stipulated that the Islamic banking system is different from the traditional banking system because financing is mainly directed towards consumer credit rather than corporate finance.

The research showed that Islamic financial institutions developed several types of financing mechanisms that are majority oriented through corporate finance. Consequently, these Islamic financial institutions are involved in the development of their national economy and contribute to the development and creation of new resources and in stimulating employment. Perhaps, this conclusion could not be generalised among all the Islamic financial institutions as in practice; the consuming murabaha constitutes the major part of transactions established by these institutions. The findings show that the Islamic financial institutions focus their mechanisms of financing, respectively, on murabaha, musharaka and mudaraba. It is common to assume that murabaha deals more with consumer credit rather than corporate finance. Our research denied this assumption.

Our findings showed that out of three programs of murabaha, two are oriented through corporate finance, and the third one could be assimilated as a positive investment even if it provides consuming financing. First, Islamic financial institutions use murabaha programs to help corporations to purchase equipment, services, and tools necessary to run their business. Second, murabaha in consuming services like financing education and training is scientifically positive because it is assimilated as an investment that could develop the economy and guarantee the entrepreneurship projects. Third, the research showed that murabaha that serves to finance the purchase of consuming goods or services could be assimilated as positive in case it helps to finances the purchase of products or services.

Finally, by using the murabaha mechanism to deal with consuming credits, Islamic financial institutions guarantee the generation of funds that will help these institutions to finance the demand formulated by SMEs and consequently stimulating entrepreneurship. When it comes to musharaka, we notified that this mechanism relays more on the guarantees of the success of the project. In such regard, financial institutions focus more on large projects with well-known companies. In such cases, the success of partnership projects is quasi-guaranteed. When establishing a partnership with SMEs, in the majority of cases, the Islamic financial institutions rely on the qualifications and competencies of the entrepreneurs.

Meanwhile, these institutions make sure value investment by becoming partners with experienced, highly qualified people and artisans. We can say in such a situation that the knowledge is the guarantor of the success of the partnership (Abadli and Otmani, 2014).

Another important finding related to musharaka mechanisms showed us that Islamic financial institutions prefer establishing long-term diminishing musharaka, preferably that permanent one.

Through intensive research among Islamic financial institutions, we notified that only a few institutions deal with the mudaraba mechanism. Islamic financial institutions are reluctant to deal with the mudaraba mechanism and offer finance to SMEs, mainly because it is risky and challenging to implement in the context of microfinance. Given the role of Islamic financial institutions, microfinance, and SMEs in stimulating the economy and creating new opportunities of employment, the necessity of continuing the efforts of creation, innovation, and diversifications of mechanisms, programs, and financing tools is an essential first finding. The necessity of financing the purchase of local products, goods, and services through the mechanism of murabaha is a second important finding. In fact, this kind of transactions will generate positive incomes and more financial resources that could help the Islamic financial institutions generate the necessary funds in order to finance other projects or SMEs. The reasonable financing through the consuming musharaka mechanism could also participate in the development of the economic and social growth.

This study also focused on the exploration of the best practices and experiences among Islamic financial institutions that led to the encouragement of financing SMEs. The researcher was able to demonstrate that the primary Islamic financial mechanisms (murabaha, musharaka, mudaraba) could benefit the economies of the adopting countries in case they are reasonably and ethically used. The research also dressed a new model of a framework of productive Islamic finance mechanisms that could be used in the context of investment.

This research faced lots of challenges and limits and especially in terms of access to the information. Only a few institutions advertise and show their projects and realisations. In several cases, we were able to collect information's through newspapers as they shared the details of the partnerships. Also, in several instances, the financial institutions announced their partnerships but did not give more information about its value or the mechanism based on it; they agreed. These institutions only informed us that they made a share-based partnership. Future research can also focus on the annual reports of the Islamic financial institutions to get a real image of the specific repartition of the financing activities based on the different mechanisms and programs.

In summary, the research suggests more impact on Islamic finance best practices research in a global context. We highly recommend Islamic financial institutions to focus their financing activities on debt contracts like musharaka and mudaraba mechanisms because they serve the development of sustainable business models and reflect the positive value of Islam. Besides, these financing mechanisms positively influence the local economy and society well-being. These institutions are also encouraged to favourite the positive consuming murabaha rather than the negative consuming murabaha. The Islamic financial institutions could only recourse to the murabaha mechanism in case it serves to buy local consuming goods and services.

The empirical findings highlighted the importance of the collaboration between the financial institutions, the government, the private sector, and NGOs to encourage the adoption of Islamic finance mechanisms that are in cohesion with the Islamic spirit and that would serve the best interests of the global and local economy. Also, it is recommendable for Islamic financial institutions to continue to develop and conceive a variety of products, mechanisms of financing that compete with the non-sharia compliant models, and that is ethically respectable. By doing so, the variation and abundance of choices, programs, and mechanisms will accentuate competitiveness between traditional and Islamic financial institutions.

5 Conclusions

The existing Islamic finance mechanisms are essential and valuable, but their effect in terms of stimulating the economic and social growth is limited. The financial institutions oriented these mechanisms through the finance of the purchase of goods and services with limited benefit rather than financing SMEs and boosting entrepreneurship. This research also showed that the use of the mechanisms of finance is unequal, mitigated, and not always visible. The researchers dressed a new model of the framework of productive Islamic finance mechanisms that could be used in the context of investment. They also presented specific experiences and best practices adopted by the stakeholders through the analysis of websites and press releases of an essential number of Islamic financial institutions situated in different parts of the world. The spread of these best practices among the other financial institutions is highly recommended. Finally, the research showed how the negative consuming musharaka could be transformed into a highly desirable mechanism that could benefit the local economy in terms of growth and prosperity. The findings reveal new insights into the practices and tools used by Islamic financial institutions. Results and ideas can also be relevant for the enhancement of the performance of these financing institutions. They can also provide new sharia-compliant solutions for SME’s financing.

Availability of data and materials

The study is based on secondary data which have been collected from financial institutions websites and press releases.

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Abbreviations

MHVA	Murabaha with high value-added
CACI	Ceramic Al Hael Company International
QDB	Qatar Development Bank
QAR	Qatari riyal
ADF	Agricultural Development Fund
SAIB	Saudi Investment Bank