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FINANCIAL INCLUSION IN MUSLIM-MAJORITY COUNTRIES: OVERCOMING ECONOMIC AND SOCIAL CHALLENGES THROUGH ISLAMIC LENDING

***Ramzi Abdullah Ahmed Hassan*[1]**

[1]Ph.D. Research Student, Department of Economics, Swami Ramanand Teerth Marathwada University, Nanded City, Maharashtra, INDIA
Email: captinrmzy@gmail.com

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Abstract: This study explores the impact of Islamic loans on promoting financial inclusion and addressing socio-economic issues in Muslim-majority countries. It compares Islamic loans with other financial instruments to demonstrate their contribution to creating an inclusive financial system.The research analyzes the challenges associated with using Islamic loans to enhance financial inclusiveness and mitigate economic and social challenges. The research explores the unique characteristics of Islamic loans and their impact on financial accessibility, savings, credit availability, and comprehensive banking services through a comparative descriptive methodology, including a literature review and data analysis. The study's findings reveal that Islamic finance presents opportunities for financial inclusion. However, there are several obstacles that need to be addressed, including regulatory and legal frameworks, scalability issues, global integration, public awareness, and technical accessibility. To promote the adoption of Islamic finance and advance financial inclusion, collaboration among regulatory bodies, financial institutions, legislators, and the public is crucial. Further research and the development of effective strategies are necessary to promote financial inclusion in the Islamic economy.

Keywords: *financial inclusion, islamic lending, regulatory frameworks, socio-economic challenges*

Abstrak: Penelitian ini membahas tentang dampak pinjaman syariah dalam mendorong inklusi keuangan dan mengatasi isu-isu sosial-ekonomi di negara-negara berpenduduk mayoritas Muslim. Penelitian ini membandingkan pinjaman syariah dengan instrumen keuangan lainnya untuk menunjukkan kontribusinya dalam menciptakan sistem keuangan yang inklusif. Penelitian ini menganalisis tantangan yang terkait dengan penggunaan pinjaman syariah untuk meningkatkan inklusivitas keuangan dan memitigasi tantangan ekonomi dan sosial. Penelitian ini menggali karakteristik unik dari pinjaman syariah dan dampaknya terhadap aksesibilitas keuangan, tabungan, ketersediaan kredit, dan layanan perbankan secara menyeluruh melalui metodologi deskriptif komparatif, termasuk tinjauan literatur dan analisis data. Temuan studi ini mengungkapkan bahwa keuangan syariah memberikan peluang untuk inklusi keuangan. Namun demikian, terdapat beberapa kendala yang perlu diatasi, termasuk kerangka peraturan dan hukum, masalah skalabilitas, integrasi global, kesadaran masyarakat, dan aksesibilitas teknis. Untuk mendorong adopsi keuangan syariah dan memajukan inklusi keuangan, kolaborasi antara badan pengatur, lembaga keuangan, legislator, dan masyarakat sangatlah penting. Penelitian lebih lanjut dan pengembangan strategi yang efektif diperlukan untuk mempromosikan inklusi keuangan dalam ekonomi Islam.

***Kata kunci*:** *inklusi keuangan, pinjaman Islam, tantangan sosio-ekonomi, kerangka regulasi*

INTRODUCTION

The importance of financial inclusion has increased dramatically worldwide, leading governments to prioritise policies that would improve it. This emphasis is emphasised in the World Bank's 2014 Global Financial Development Report, which also shows that more than 50 countries have set official objectives and that more than two-thirds of regulatory and supervisory authorities are actively supporting financial inclusion[1].

Islamic economics and finance are potential drivers of financial inclusion, particularly in Muslim-majority countries. One of the core principles of Islamic economics is the prohibition of interest-based transactions, which is seen as exploitative and unjust[2]. This principle is reflected in Islamic banking and finance development, which utilises profit and loss-sharing structures instead of interest-based transactions[3]. This approach is believed to be more inclusive, as it encourages the participation of small and medium-sized enterprises and low-income individuals who may not have access to traditional banking services. Islamic microfinance is another area where the principles of Islamic economics can be applied to promote financial inclusion. Islamic microfinance institutions (MFIs) provide financial services to low-income individuals and small businesses following the principles of Islamic finance[4]. This includes the prohibition of interest-based transactions and the use of profit and loss-sharing structures. Islamic MFIs also provide other services such as savings, insurance and credit facilities, which can help to promote financial inclusion among marginalised communities[5].

Additionally, Zakat, one of the Five Pillars of Islam, can promote financial inclusion. Zakat is a mandatory charitable donation typically calculated as a percentage of a person's wealth. This money is then distributed to the poor and needy[6]. It is seen as a form of wealth redistribution that can help alleviate poverty and promote financial inclusion among low-income individuals. Islamic economics and finance principles can

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[1] Jose Renjith, "Effectiveness of Financial Inclusion Policies of Reserve Bank of India with Special Reference to Kerala" (Kottayam, Mahatma Gandhi University, 2019), https://shodhganga.inflibnet.ac.in:8443/jspui/handle/10603/166323.

[2] Firas Ahmad Al-Saleh, "Dawr Al-Ṣukūk al-Islāmīyah Fī al-Tamwīl Wa-I'ādat al-I'āmār," *Majallat Jāmi'at Dimashq Lil-'Ulūm al-Iqtiṣādīyah Wa al-Siyāsīyah* 34, no. 2 (2021), https://journal.damascusuniversity.edu.sy/index.php/ecoj/article/view/585.

[3] R Tiffany and V Sangeetha, "A Study on Consumer Awareness And Usage of E-Banking Transactions through Mobile Phones in Thoothukudi," September 19, 2018, https://doi.org/10.5281/ZENODO.1461468.

[4] Shaker Al-Samarrai, "The Role of Islamic Banks in the Achievement of Financial Inclusion's Dimensions in Jordan" (Al- Albayt university, 2018).

[5] Najwa Suez, "Financial Inclusion: An Islamic Economic Appreciation" (Disertation, Yordania, Al-Bayt University, 2021), https://search.mandumah.com/Record/1293349.

[6] Musa Kashi, "Dawr Al-Zakāh Fī Taḥqīq al-Tanmīyah al-Iqtiṣādīyah Wal-Ijtimā'īyah 'The Role of Zakat in Achieving Economic and Social Development,'" *Majallat Al-Sharī'ah Wal-Iqtiṣād* 6, no. 1 (2017): 214–39.

be applied to promote financial inclusion, particularly among marginalised communities. Islamic banking and finance, Islamic microfinance, and Zakat are some ways these principles can be implemented to provide access to financial services and promote economic development[7].

Financial inclusion, defined as the proportion of the population that uses financial services, shows links to positive economic outcomes that go beyond those connected to traditional financial depth. Micro-level research shows that improved local savings account accessibility benefits the impacted population's income, savings, investments, and consumption[8]. Several case studies also show how greater access to credit promotes entrepreneurship and lowers poverty, especially by easing the financial obstacles that younger and smaller businesses in developing nations must overcome[9]. Indirect evidence supports linkages between financial inclusion and national outcomes such as income equality, economic growth, and poverty reduction, even if strong and direct links between the two remain elusive[10]. There are less positive associations between financial depth and long-term economic growth among several nations, such as oil exporters, low-income countries, and the Middle East and North Africa (MENA)[11]. Indirect evidence points to correlations between financial inclusion and national outcomes like economic development, income equality, or poverty reduction at the macro level, even if strong and direct relationships between the two are still elusive[12]. The Middle East and North Africa (MENA), low-income nations, and oil-exporting nations are some of the groupings of nations where the positive association between financial depth and long-term economic growth is less[13].

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[7] Suez, "Financial Inclusion: An Islamic Economic Appreciation."

[8] Prof Lamia Omani, Dr Wafaa Hamdoush, and Dr Aisha Salama Kaihli, "Financial Inclusion Strategy: A New Perspective to Combating Poverty," *Journal of the Performance of Algerian Institutions (ABPR* 9, no. 2 (2020): 143–58.

[9] Hibatu Allah Ahmad Sulaymān, Sherif Ismail Al-Halabi, and Sameh Abdel Maksoud Abu al-Dahab, "Tā'thīr al-Muḥaddadāt al-Iqtiṣādīyah ʿalā Iṣdār al-Ṣukūk al-Islāmīyah," *Al-Majallat al-'Arabīyah lil-Idārah* 42, no. 3 (September 1, 2022): 171–94, https://doi.org/10.21608/aja.2022.226695.

[10] Warda Mousawi, "The Impact of Islamic Finance for Entrepreneurship Activities on Economic Growth : An Empirical Evidence from Malaysia," *Majallat Al-Dirāsāt al-Mālīyah, al-Muḥāsabīyah Wa al-Idārīyah* 8, no. 2 (2021): 218–37.

[11] Seddiki Faouzi and Ahmed Loualbia, "Masāhmah Al-Ta'līm al-Mālī Fī Ta'zīz al-Shumūl al-Mālī liTaḥqīq al-Numū al-Iqtiṣādī - Dirāsah Taḥlīlīyah," *Majallat Al-Taḥlīl Wa al-Istishrāf al-Iqtiṣādī* 04, no. 01 (2023): 78–93, https://www.asjp.cerist.dz/en/downArticle/768/4/1/225913.

[12] Hilal Anwar Butt, Mohsin Sadaqat, and Falik Shear, "Does Islamic Financial Development Foster Economic Growth? International Evidence," *Journal of Islamic Accounting and Business Research* 14, no. 6 (August 15, 2023): 1013–29, https://doi.org/10.1108/JIABR-10-2022-0267.

[13] Zelin Nurfadia Sidik, Noer Azam Achsani, and Syamsul Hidayat Pasaribu, "Financial Inclusion and Demand for Money: A Dynamic Panel Data Approach," *Signifikan: Jurnal Ilmu Ekonomi* 7, no. 2 (March 16, 2018): 137–48, https://doi.org/10.15408/sjie.v7i2.6838.

Additionally, compared to nations with comparable financial depth, these groups typically fare worse regarding financial inclusion. As such, if financial services are not accessible to a sizable population segment, economic growth might be costly. Moreover, MENA nations' slower development in comparison to the world average has been attributed to a lack of loan availability[14].

Beginning with Mahendra's[15] work, the discourse on financial inclusion identifies the gaps and challenges faced by impoverished farmers and vulnerable groups in accessing formal financial services. Mahendra emphasizes the necessity of regulatory reforms and the depoliticization of the financial sector to support banking and microfinance initiatives aimed at achieving financial inclusivity. The conversation continues with Marius[16] and Zelin Nurfadia Sidik[17], who investigate the impact of financial inclusion on economic growth and poverty alleviation. Marius constructs a financial inclusion indicator for Romania, while Sidik explores the relationship between financial inclusion and economic expansion, highlighting the financial sector's role in promoting equitable income distribution.

In his 2018 study, Al-Sāmirā'ī shifts[18] the focus to Islamic finance and analyzes the contribution of Islamic banks to financial inclusion in Jordan. The findings indicate that Islamic banks provide better access to banking services, especially for SMEs and rural communities, outperforming conventional banks. Ammar Gharbi[19] proposes a conceptual framework for Islamic financial and banking inclusion, emphasizing the significance of social and economic inclusion and the complex aspects that influence the economy.

Najwa Al-Suwais[20] provides a comprehensive overview of financial inclusion within the Islamic economy, including support mechanisms for the poor and challenges that must be addressed to promote effective financial inclusion. Ahmad Malik and

[14] Jamel Boukhatem and Fatma Ben Moussa, "The Effect of Islamic Banks on GDP Growth: Some Evidence from Selected MENA Countries," *Borsa Istanbul Review* 18, no. 3 (September 2018): 231–47, https://doi.org/10.1016/j.bir.2017.11.004.

[15] Dev Mahendra and S. Mahendra, "Financial Inclusion: Issues and Challenges," *Economic and Political Weekly* 41, no. 41 (2006): 4310–13.

[16] Marius GUST, "Financial Inclusion," *Revista Economia Contemporană* 2, no. 4 (2017), https://www.scribd.com/document/562861207/FINANCIAL-INCLUSION-Marius-GUST.

[17] Sidik, Achsani, and Pasaribu, "Financial Inclusion and Demand for Money."

[18] Shākir Maḥmūd ʼAbd al-Ghafūr Al-Sāmirāʼī, "Daur al-Maṣārif al-Islāmīyah fī Taḥqīq Abʼād al-Ishtimāl al-Mālī fī al-Urdun" (Al-Mafraq, Al-Albayt university, 2018), http://search.mandumah.com/Record/923212.

[19] Gharbī ʼA Abdel Halim, "Naḥw Iṭār Mafāhīmī Lil-Shumūl al-Mālī Wal-Maṣrafī al-Islāmī: Dirāsah Taḥlīlīyah Li-Abʼādihi Wa-Muʼashshirātihi Wa-Taʼthīrātihi," *Al-Majallat al-Jazāʼirīyah Lil-Dirāsāt al-Mālīyah Wal-Maṣrafīyah* 10, no. 1 (2020): 07–41, https://www.asjp.cerist.dz/en/article/115195.

[20] Najwa Mahmoud Abdel-Rahman Al-Suwais, "Financial Inclusion in the Light of the Islamic Economy," *Jarash Lil-Buḥūth Wal-Dirāsāt* 23, no. 2 (2022), https://search.mandumah.com/Record/1308464.

Yadav[21] expands on the theoretical foundation by analyzing various theories related to income, savings, and determinants of financial inclusion. The author emphasizes the significance of individual, social, and institutional perspectives in designing interventions. Musa Abdullahi Sakanko[22] highlights the importance of financial literacy in achieving financial inclusion and demonstrates its positive correlation with financial inclusion indicators in Niger State.

These studies collectively document the progression from identifying the fundamental challenges of financial inclusion, to exploring the role of Islamic finance, and finally recognizing digital technology as a critical enabler. They provide a comprehensive overview of the strategies and interventions necessary to achieve inclusive financial systems.

This research will use a descriptive comparative methodology to analyze the effectiveness of Islamic finance in achieving financial inclusion. The study will examine the characteristics and features of Islamic and conventional financial systems, focusing on their roles in promoting financial inclusivity. A comparative analysis will be conducted to assess the similarities and differences between them, particularly in terms of their impact on financial inclusion.

To gather relevant background information and insights, we will conduct a comprehensive review of academic literature, reports, articles related to Islamic finance, financial inclusion, financial records, surveys, and case studies. Additionally, we will analyze existing data from reputable sources and publications. The comparative analysis will identify similarities and differences in financial inclusion outcomes between Islamic and conventional finance. This will be done using indicators such as access to banking services, savings, credit availability, and the usage of financial products.

The interpretation of these findings will assess the contribution of Islamic finance implementations towards achieving financial inclusion compared to conventional systems. We will analyze and discuss the main factors that affect the effectiveness of Islamic finance in promoting financial inclusivity. Based on this analysis, we will draw conclusions about the role of Islamic finance in enhancing financial inclusion and provide

[21] Firdous Ahmad Malik and D. K. Yadav, "Impact of Recent Financial Inclusion Schemes on Status of Financial Inclusion in India: Secondary Data Analysis," in *Financial Inclusion Schemes in India*, by Firdous Ahmad Malik and D. K. Yadav (Singapore: Springer Nature Singapore, 2022), 37–51, https://doi.org/10.1007/978-981-19-1316-7_3.

[22] Kashi, "Dawr Al-Zakāh Fī Taḥqīq al-Tanmīyah al-Iqtiṣādīyah Wal-Ijtimā'īyah 'The Role of Zakat in Achieving Economic and Social Development'"; Musa Abdullahi Sakanko, Sufiyanu Umma Yahaya, and Salihu Abdullahi, "Financial Literacy and Financial Inclusion," *Zakariya Journal of Social Sciences* 2, no. 1 (2023): 1–10.

recommendations for policymakers, financial institutions, and stakeholders to improve the effectiveness of Islamic finance in promoting financial inclusivity.

This research examines the effectiveness of Islamic loans as financial instruments in promoting financial inclusion and addressing economic and social issues in Muslim-majority countries. It compares Islamic loans with other financial instruments to understand their unique contributions and effectiveness in fostering financial inclusivity. The study will analyze the potential challenges and limitations of using Islamic loans for financial inclusion and addressing economic and social issues.

The research findings will be discussed to shed light on the implications for policy and practice. This text examines the role of Islamic loans in promoting financial inclusion and addressing economic and social challenges. The research aims to contribute to the existing knowledge on the topic by providing insights into the effectiveness of Islamic loans in promoting financial inclusivity and overall economic and social well-being in Muslim-majority countries.

DISCUSSION

1.1 Islamic Finance for Inclusive Empowerment

Promoting social justice and economic success is the shared objective of Islamic economics and financial inclusion. Islamic economics stresses moral and just economic principles based on Islamic teachings, whereas financial inclusion seeks to give all people and enterprises access to necessary financial services[23]. By bringing these ideas into harmony, countries may create inclusive financial systems that support social justice and ethical norms while meeting the requirements of a wide range of demographics. Ensuring that all people and companies have access to basic financial services including credit, insurance, savings accounts, and payment methods, is the main goal of financial inclusion. This principle strongly emphasises removing obstacles to financial access, such as those caused by socioeconomic, cultural, and geographic considerations[24]. (Al-Samarrai 2018) Promoting financial literacy, increasing access to banking services via cutting-edge technology, and encouraging inclusive policies that consider the needs of underserved groups are essential elements of financial inclusion. Islamic law (Sharia) provides guidelines for Islamic economics that prioritise societal welfare, justice, and fairness. Islamic economics is based on the proscriptions against interest (riba) and gambling (gharar), together with the concepts of zakat (wealth redistribution) and moral

[23] Butt, Sadaqat, and Shear, "Does Islamic Financial Development Foster Economic Growth?"
[24] Al-Sāmirā'ī, "Daur al-Maṣārif al-Islāmīyah fī Taḥqīq Ab'ād al-Ishtimāl al-Mālī fī al-Urdun."

business practices (adl)[25]. Under these guidelines, Islamic finance provides Sharia-compliant financial services and products supporting fair wealth distribution and socioeconomic growth. It is possible to develop inclusive financial systems that support moral and just economic practices while also meeting the demands of a varied society by combining the ideas of Islamic economics and financial inclusion. Islamic finance, for example, provides alternative financing structures like partnership (musharakah) and profit-sharing (mudarabah) that align with the ideals of financial inclusion by giving underprivileged people access to capital while abstaining from exploitative practices[26].

Furthermore, Islamic microfinance organisations support financial inclusion initiatives by meeting low-income people's and small enterprises' financial requirements while upholding Sharia-compliant norms. In addition, zakat, a cornerstone of Islamic economics, addresses poverty and fosters social solidarity by acting as a tool for wealth transfer[27]. Even though the ideas are in line, there are obstacles to combining Islamic economics with financial inclusion. These include opposition to change in established financial systems, regulatory obstacles, and ignorance of the fundamentals of Islamic financing. On the other hand, adopting these principles opens doors for communities, lawmakers, and financial institutions to work together and innovate[28]. Based on these principles, a theory combining financial inclusion with Islamic economics could involve the creation of financial institutions that offer loans based on the principles of Islamic finance[29]. These institutions could prioritise lending to individuals and small businesses that align with Islamic values, such as promoting sustainability, social justice, and economic development. To ensure that the loans are used meaningfully and effectively, the financial institutions could also offer financial education and support services to help borrowers develop business plans and manage their finances[30]. This could include assistance with market research, financial planning, and debt management. In addition, the financial institutions could work with local community organisations and government agencies to identify areas where loans could impact social and economic development. For example, they could focus on providing loans to individuals and businesses in underserved or disadvantaged communities or entrepreneurs seeking to

[25] Abdel Halim, "Naḥw Iṭār Mafāhīmī Lil-Shumūl al-Mālī Wal-Maṣrafī al-Islāmī: Dirāsah Taḥlīlīyah Li-Ab'ādihi Wa-Mu'ashshirātihi Wa-Ta'thīrātihi."

[26] Butt, Sadaqat, and Shear, "Does Islamic Financial Development Foster Economic Growth?"

[27] Mousawi, "The Impact of Islamic Finance for Entrepreneurship Activities on Economic Growth : An Empirical Evidence from Malaysia."

[28] Al-Suwais, "Financial Inclusion in the Light of the Islamic Economy."

[29] Qasim Mousa Abu Eid et al., "The Role of Financial Inclusion in the Stability of Islamic Banks," *International Journal of Professional Business Review* 8, no. 4 (April 5, 2023): e01214, https://doi.org/10.26668/businessreview/2023.v8i4.1214.

[30] Butt, Sadaqat, and Shear, "Does Islamic Financial Development Foster Economic Growth?"

start businesses in sectors aligned with Islamic values, such as agriculture, healthcare, or education. This theory could provide a framework for creating financial institutions that promote financial inclusion, economic development, and social justice while upholding Islamic finance and ethics principles[31].

1.2 Exploring The Meaning and Importance of Financial Inclusion

Financial inclusion refers to the efforts to bring as many people as possible within the scope of the financial system. That is done to achieve several goals, including the government's desire to have greater control over financial tools within the country and individuals having access to banking accounts, which means that their income and expenses are visible to the relevant authorities. In addition to some studies, the government directs economic activity towards individuals[32]. Facilitating individuals' access to financial institutions and obtaining easy funding means a good flow of financial transactions, enhancing the fight against unemployment and promoting production and maximum utilisation of human potential[33].

Some researchers have mentioned that the term "financial inclusion" was first used in 1993 in a study by Jonathan and Thorbecke, which discussed financial services in Southeast Asia and the impact of closing a bank branch on the population's access to banking services[34].

The World Bank defines financial inclusion as "the ability of individuals and businesses to access useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit, and insurance - sustainably[35].

It is also noteworthy that financial inclusion has expanded to include the availability of financial services and the Use of these services. Therefore, the availability of services alone is not sufficient; instead, the use of these services by individuals and institutions in a meaningful and effective way is[36]. According to the Islamic Finance Development Report 2020, the global Islamic finance industry grew, reaching $2.88

[31] Ajoly Abdullah Egoly Khaled, "Obstacles to Islamic Sukuk and Ways of Their Success," *The Academy for Social and Human Studies*, 2022.

[32] Butt, Sadaqat, and Shear, "Does Islamic Financial Development Foster Economic Growth?"

[33] Syeda Arooj Naz and Saqib Gulzar, "Islamic Financial Development & Economic Growth: The Emergence of Islamic Financial Market in Pakistan," *Journal of Islamic Accounting and Business Research* 14, no. 6 (August 15, 2023): 989–1012, https://doi.org/10.1108/JIABR-09-2022-0222.

[34] Ahmed Atef, "Al-Shumūl al-Mālī Wa al-Taqaddum al-Iqtiṣādī," *Majallat Al-Māl Wa al-Tijārah* 000 (2018): 591, http://search.mandumah.com/Record/911649.

[35] Eid et al., "The Role of Financial Inclusion in the Stability of Islamic Banks."

[36] Fekri Ali Shawtari et al., "Financial Development and Economic Diversification in Qatar: Does Islamic Finance Matters," *Journal of Islamic Accounting and Business Research*, June 9, 2023, https://doi.org/10.1108/JIABR-01-2022-0021.

trillion in assets in 2019. Despite facing uncertainties in finance markets due to low oil prices and slower industry growth in 2018, the industry experienced an impressive annual growth rate of 14% from 2012 to 2019. Regarding distribution, the Middle East and North Africa (MENA) accounted for $1.39 trillion of finance assets, Asia with $1.33 trillion, Sub-Saharan Africa with $140 billion, and Europe and the Americas with $20 billion. The report also emphasises factors contributing to finance development, including Quantitative Development, Knowledge, Governance, Corporate Social Responsibility (CSR) and Awareness. The sustained growth of this industry reflects its resilience and potential as a financial system based on Islamic principles. Furthermore, the report provides data on the financial landscape and the size and growth of Islamic banking assets from 2012 to 2019. This data offers insights into the expansion and impact of finance worldwide[37].

1.3 Tools of Financial Inclusion in the Islamic Economy

Loan has been known since ancient times. It is the result of dealing with money and the need for it. This was found in ancient times, just as in the modern era, regardless of the nature of the money loaned, the patterns and forms of the loan, and the size with which it is made. This is what modern loans differ from. In ancient times, we need to emphasise that loans as a means of meeting the needs of those in need existed in the early ages, and they were also linked to interest and capital increase.

To prove this fact, we quote what Aristotle mentioned when he said: Interest is money generated from money, not from work, and this, among all types of earning, is the gain contrary to nature. Here, Aristotle refers to the corruption of the loan contract that includes interest, with the driving argument that cash does not generate cash, but rather what causes cash is work, and that a loan with interest is a gain that is against common sense, and the nature of things because it is a malicious gain based on exploiting the need of the forced. In addition to that, the ancient Egyptians knew the loan. They dealt with it, as evidenced by the law established by "Bochoris," one of the kings of the Twenty-Fourth Dynasty, which prohibited the total interest from exceeding the capital in the loan. Loan at interest was known in Babylonian and Assyrian laws and among the Greeks and Romans. This means that the loan was part of the legal systems of those peoples and

[37] Islamic Finance Development Report., "PROGRESSING THROUGH ADVERSITY," 2020, https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893_2100.pdf.

societies in response to a social and economic necessity required by dealing between people since the ancient times[38].

There is no doubt about the importance of the loan because people need to deal with it, and this need has grown. Its impact has gone beyond the narrow scope, which was limited to meeting individual needs related to the demands of daily life for the most part, and some social needs, which are required for the sustenance of some segments of society. We say that this need has developed and emerged in our current era, to huge needs and general needs, which depend on It is responsible for the fate of a large sector of society. Rather, the entire society has begun to resort to loans to bring about the desired development, almost to finance projects and achieve its development goals and the interests of its individuals in prosperity and progress[39].

The importance of a transaction is due to the extent of the need for it and its role in fulfilling the demands of the individual and the group and achieving its intended purpose. The broader the scope of dealing with it, the more frequently it is resorted to, and the more it is used by the individual and the group to meet public and private needs, the more this indicates the depth of interest. In it, and the interest of the law regarding it, he gave it the appropriate status, as is evident from the legislation of interest in Islamic law. Since the loan is necessary to meet people's needs, the reality of daily dealings at the individual and group levels has proven people's demand for it and their striving to obtain it. Rarely does a person not borrow until the loan has become a manifestation of helping the needy and helping the distressed. The Almighty Truth has known the great need for it, for His servants who lack a helping hand and assistance in times of distress and distress, so He encouraged the loan and placed the lender in a high status, as he God Almighty lends, and receives help from Him many times over. God Almighty said: (Who is the one who lends God a good loan and He multiplies it to Him many times over?) [Al-Baqarah - 245]

With such a correct view, the loan must be evaluated within the framework of pilgrimage interests, depending on the nature of the role it plays, the intensity of the need for it, and the helpful purpose behind many people's demand for it and their striving to obtain it, which is what makes the legal ruling that applies to it fall within the scope of pilgrimage interests. It is a recommendation, not a permissibility, as proven by narrational and rational evidence, and due to the nature of the need for it, which is a clear

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[38] Debian bin Mohammed Al-Dubian, *Financial Transactions Authenticity and Contemporary* (Riyadh: King Fahd National Library, 2012).

[39] Muhammad bin Nasr bin Al-Hajjaj Al-Marwazi, *Ikhtilāf Al-Fuqahā'* (Riyadh: Adwaa Al-Salaf, 2000), https://arabic-books.amuslim.org/%D9%81%D9%82%D9%87%20%D8%B9%D8%A7%D9%85.

need, not hidden from a sensible person, as evidenced by dealing with the ancients and the moderns[40].

From the context of these definitions, we can extract the elements of the loan:

1. The thing lent must be money, which is all that has a financial value, regardless of whether it is cash or a movable or immovable commodity.
2. A loan in Islamic law is a good loan that does not include an element of interest or the lender’s benefit from the loan in any form of benefit or conditional interest, which means that the benefit of the loan accrues to the borrower only. A usurious contract is prohibited by Islamic law because it is a loan in exchange for the lender’s benefit.
3. The subject of the loan contract is a specific, known property of a similar type of property, which is the property whose individual properties vary significantly in value and are consumed by using them, such as money and measured and weighed items.
4. The ownership of the loaned property is transferred from the lender's ownership to the borrower's ownership, and he incurs a debt, who must return its equivalent or value.
5. The borrower must return the equivalent of the money he took or its value to the lender if he cannot return the equivalent because the loan is based on equal compensation for the loaned money[41].

The field in which the loan operates and the orbit in which it revolves makes the area that includes it allow some contracts or other transactions to use within its framework, which requires drawing the dividing lines that distinguish the loan from these contracts that may overlap with it in some general features and characteristics. This is done by highlighting the main characteristics and nature of each of these contracts so that each contract retains its independent personality and unique nature, to give it the legal description and the precise jurisprudential terminology for it, and the rulings that result from it[42].

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[40] Bin Sheikh Abu Bakr Al-Siddiq, “Al-’Alāqah Bayna Idārat Amwāl al-Zakāh waMasāhmah Ṣundūq al-Zakāh Fī al-Tanmīyah waMu’ālajah al-Faqr Dirāsah Ḥālah Ṣundūq al-Zakāh liWilāyah Jījil,” *Majallat Al-Sharī’ah Wal-Iqtiṣād* 10, no. 2 (2021): 182–200, https://www.asjp.cerist.dz/en/article/175843.

[41] Rafika Bin ’Ayshūbah, “Ṣinā’at al-Tamwīl al-Islāmī Wa Dūruhā Fī Ta’zīz al-Shumūl al-Mālī - Dirāsah Ḥālah al-Duwal al-’Arabīyah,” *Majallat Al-Iqtiṣād Wa al-Tanmīyah al-Basharīyah* 9, no. 2 (2021): 46–59.

[42] Ghazāzī ʿUmar and Rābiḥ Fawḍīl, “Istithmār Amwāl Ṣundūq Al-Zakāh Min Khalāl “al-Qarḍ al-Ḥasan,” *Majallat Al-Iqtiṣād Wa al-Tanmīyah al-Basharīyah* 3, no. 2 (2012): 33–46.

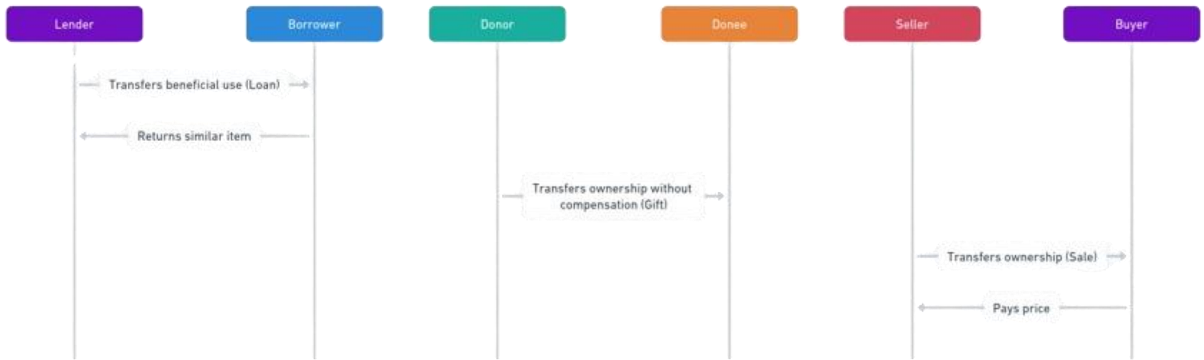

Figure 1. Transactional Dynamics in Islamic Finance: Loans, Gifts, and Sales

Figure 1 illustrates the distinctions among various financial and transactional agreements, highlighting their unique features and conditions:

1. Loans and loans: A loan gives something similar to benefit from, on the condition that something like it is returned. While the borrower owns the loan, the benefit of the property is without compensation. The loan is from Arabic, which is the gift, and that is why it is contracted with the word ownership, and the benefits are subject to ownership like faith.
2. The difference between a loan and a loan appears clearly in that the loan transfers ownership of the loaned thing, while the loan indicates the beneficial ownership or permissibility of the borrowed thing. The transfer in the loan is focused on the loaned money itself, while in the loan, it is limited to the beneficial ownership of the borrowed money. In other words, In a loan contract, the borrower owns the property and the benefit of the money to the lender. In a loan contract, he owns the benefit of the borrowed property, and ownership remains with the lender[43].
3. Loan and gift: The distinction between a loan and a gift is perhaps clearer than between a loan and a loan. The truth is that the loan includes the lender's ownership of the borrowed property to the borrower, provided that he returns its equivalent, i.e. something similar. At the same time, the gift is the donor's ownership of the property gifted to him, without compensation, in the event of a voluntary life. In the loan, there is compensation, and in the gift, it is a pure donation, beginning and ending with our awareness and benefit, it is of the same type as charity, gift, and gift, as their meanings are close and all of them are

[43] Kashi, "Dawr Al-Zakāh Fī Taḥqīq al-Tanmīyah al-Iqtiṣādīyah Wal-Ijtimāʿīyah 'The Role of Zakat in Achieving Economic and Social Development.'"

ownership in life without compensation, and the name gift is inclusive of all of them. From another perspective, the compensation is in the ideal amount of money, the parts of which do not differ - without the value, and the gift is in every money, whether ideal or value. From a third perspective, the gift requires a receipt. Al-Thawri, Al-Shafi'i, and Abu Hanifa agreed that one of the conditions for the validity of the gift is receipt and that if it is not received, the donor is not obligated. Malik said: It is concluded by word, and the receipt is forced, just like a sale, and if the donee delays requesting receipt until the donor becomes bankrupt. Or illness, the gift is invalidated. Receipt is not a condition of the loan[44].

1.3.1 Failing to Justify the Benefits from a Development Perspective

Basing the banking system on interest and considering it the primary axis upon which banking operations are based, in its various forms and aspects, contradicts the philosophy of financing with loans in particular, and the philosophy of development, which the banking and economic system aims at in society, and this is indicated by following the purpose for which it is intended. These loans are provided, and they are usually provided for one of two purposes: loans that provide consumer purposes. These loans are obtained mainly by people with meagre resources to meet urgent personal needs, as they rarely have any savings to meet such requirements. Then, the prohibition of interest in this type of loan is based mainly on humanitarian considerations. On the other hand, loans are provided for productive purposes. The wisdom behind prohibiting interest in them is due to the idea of justice between man and his fellow man, which is the idea that is considered the cornerstone of Islamic philosophy about social life. The economy should be represented in any economic system that seeks true development, which benefits the individual and society and does not sacrifice one aspect at the expense of another. There is no doubt that uncertainty is inherent in any business project, regardless of the dimensions of time and place, and there is no doubt that uncertainty is inherent in any business project, irrespective of the dimensions of time and place. The results of project operation can be predicted, and the profit or loss and the size of either cannot be determined in advance. This is what is ignored by the interest system, which relies on the assumption of a fixed

[44] Muhammad Al-Shahat Al-Jundi, *The Loan As A Financing Tool In Islamic Law*, 1996, https://www.noor-book.com/%D9%83%D8%AA%D8%A7%D8%A8-%D8%A7%D9%84%D9%82%D8%B1%D8%B6-%D9%83%D8%A3%D8%AF%D8%A7%D8%A9-%D9%84%D9%84%D8%AA%D9%85%D9%88%D9%8A%D9%84-%D9%81%D9%89-%D8%A7%D9%84%D8%B4%D8%B1%D9%8A%D8%B9%D8%A9-%D8%A7%D9%84%D8%A5%D8%B3%D9%84%D8%A7%D9%85%D9%8A%D8%A9-pdf.

interest standard, regardless of the outcome of these projects, which in turn is reflected in the economic and social situation, the society of producers who bear risks alone, carry out business and undertake organisation, which may or may not result in a positive return. This harms the development efforts of individuals, which in turn affects society's general development processes.

1.3.2 Jurisprudential Theory on Loan Repayment

It is self-evident to say that the borrower's need for a loan is based on the money he obtains. This money is not intended for itself, but rather for the intended purpose of it, in terms of meeting his needs and obtaining his benefits from it. And this is also the case with financial objects, and it is to a more clear degree. It is established in economics that money is not sought for its own sake but rather because of the purchasing power it represents for various goods and services. It is the standard for evaluating things and the mediator in dealing with people. It is the term of price, which is relied upon and wins people's satisfaction and acceptance.

For this reason, people's need for money is intense, which is most significant for the borrower who asks for money to meet his urgent demands. In most cases, the loan is returned to money, for the same meaning as the previous one, since a loan is a contract whereby ownership of a sum of money, or anything ideal, is transferred. This criterion is another specification, provided that the borrower returns something similar in amount, type, and description at the end of the loan. Due to the nature of the obligation in the loan contract, it is a contractual obligation in which the lender pays the loan. The borrower returns the loan with the conditions, restrictions, and pledges stipulated in the contract that govern the contract and fall within the scope of Sharia, which means that the obligation to the right to the loan means its type and quantity. A recipe and a term. The origin requires this of Sharia law, the contract's text, and the agreement's meaning. To say otherwise is to distort the facts and violate the principles of correct dealing.

1.3.3 Foundations of Nurturing Wealth and Ensuring Protection

In Islam, wealth has a special philosophy that differs from any other economic system. Ownership belongs to Allah: "Give them from the wealth of Allah that He has given you" (An-Nur 33). And He has given us wealth and taught us how to spend it. "Spend from what He has made you successors over" (An-Nur 33), which means that we spend this wealth according to the theory of trusteeship. This theory means that the ownership of wealth belongs to Allah, and the individual, as a trustee, acts as the agent who wants the principal. In Islam, the individual is free to dispose of and benefit from wealth within the limits of the rules agreed upon following the Sharia. As long as Allah owns wealth, it must be earned in the way that Allah wants and distributed in the way that He wants. We have found that Islam allows various ways to earn wealth, such as prohibiting interest (riba), allowing profit-and-loss sharing companies (mudarabah), and other types of companies as long as they do not deal with prohibited things. Islam also prohibits monopoly, cheating, and consuming people's wealth through falsehood. Therefore, earning wealth is permissible and good. There are also rights for others in this wealth, such as zakat (obligatory charity), sadaqah (voluntary charity), and spending on relatives. We do not see this in any other economic system. After earning and distributing wealth, we find consumption. The owner of wealth and the one made successor over it by Allah is not allowed to spend this wealth except to the extent of his need. "The spendthrifts are brothers of the devils" (Al-Isra 27), so he is prohibited from being wasteful. Wealth in Islam is a means of achieving well-being in this life and the Hereafter[45].

The scholars of Islamic law have defined charity by its types, such as waqf, and habba. Each definition of these types only determines its nature, and with this, the meaning of charity, according to the scholars, is taken from their definition of these types. It does not go beyond the fact that charity is giving one's wealth or benefit to others in need, or in the future without compensation, to do good and be virtuous.

The scholars of Islamic law have said about charity: "Giving of one's wealth or benefit to others in need, or in the future without recompense, to do good and be virtuous, which includes hibba, waqf, bequest, and 'ariya, among others."[46]

When the scholars classify contracts, they place charities under the ownership category and consider it a division of exchange. Ownership is defined as: "Contracts of charity: sadaqa, hibba, al-habs, al-'umra, al-silah. And from this are: the discontinuation of the imam, the taking of possession, the residence, the honeybee, the 'ariya, the gift, the grant, the 'ariya, the conquest, the gift, the loving-kindness, and the mortgage is its confirmation." From the previous, it is possible

[45] Qāshī Allal, "Al-Waẓīfah al-Ijtimāʻīyah Wal-Iqtiṣādīyah Lil-Milkīyah al-Khāṣṣah – Fī Ḍaw' al-Sharīʻah al-Islāmīyah Wal-Qānūn- 'The Social and Economic Function of Private Ownership - In Light of Islamic Law and Law –,'" *Majallat Al-Qānūn Wal-Tanmīyah,* 3, no. 1 (2021): 29–47.

[46] Mostafa Mediani, "The Financial Components of the Financing of Charities - Current Charity Model," *Majallat Al-Ijtihād Lil-Dirāsāt al-Qānūnīyah Wal-Iqtiṣādīyah* 7, no. 4 (2018): 39–60.

to conclude that the definition of charity is: "For a person to give of their wealth to others with full intention, to seek nearness to Allah and gain His pleasure." Charity is obedience to Allah, and the reward for sadaqa is great[47].

Protection of wealth in Islamic economics The prohibition Language: prevention and restriction. In the terminology, it prevents a person from disposing of his wealth. The prohibition does not cause harm to human dignity, but it is mercy, benefit, protection, and cooperation; it is beneficial for the individual and society and prevents harm to them by protecting the prohibited person's wealth and rights, and for the benefit of society, by preventing the channels of poverty and poverty; because wealth must be spent without extravagance or waste. Its divisions: The prohibition is divided according to the intended benefit into two sections: 1- Prohibition for the benefit of the prohibited person; such as the prohibition of the insane, the minor, the ignorant, and the wasteful. The prohibition is legislated for their own benefit. 2- Prohibition for the benefit of others, such as the prohibition of the bankrupt debtor for the rights of creditors and the sick with the death disease for the rights of the inheritance over one-third[48].

The Islamic economy has some tools for investment, such as mudarabah, farming, sukuk and ijarah with the ultimate goal of ownership. Mudarabah is an agreement between two parties in which one party provides capital and the other provides labor. The profits are then shared according to a predetermined ratio. This type of investment is based on trust and is often used in Islamic banking. Farming is another form of investment in the Islamic economy. It involves investing in land and crops to make a profit from the sale of the produce. (Samiran. 2020) The investor is responsible for all costs associated with farming, such as purchasing seeds and equipment, hiring workers, and so on. Sukuk are bonds issued by an Islamic financial institution representing a share in an asset or project. Investors receive returns based on the underlying asset or project's performance and may also receive a share of any profits generated. Ijarah, with the ultimate goal of ownership, is an agreement between two parties in which one party leases an asset to another for a fixed period. At the end of the lease period, the lessee can purchase the asset at a predetermined price. This type of investment allows

[47] Bousaq Nabil, “Guarantees of the Human Right to Own Property and the Freedom to Invest in Islamic Law and International Covenants,” *Majallat Al-Buḥūth al-Siyāsīyah Wa al-Idārīyah* 6, no. 1 (2017): 226–37.

[48] Maifi Al-Hadi., “Al-Ḥajr ʿalā al-Ma’ūq Dhihnīan Dirāsah ʿalā Ḍaw’ al-Tashrīʿ al-Jazā’irī Wal-ʿArabī al-Muqāran,” *Majallat Al-ʿUlūm al-Qānūnīyah Wa al-Siyāsīyah* 9, no. 1 (2018): 652–73.

investors to benefit from owning assets without bearing all the associated risks. These four tools provide investors different ways to invest in the Islamic economy while adhering to Sharia law. The place does not accommodate for a detailed search in the details of its parts[49].

1.4 Islamic Contracts and Their Link to Financial Inclusion

1.4.1 Mudarabah Contract: Fostering Entrepreneurship and Inclusion

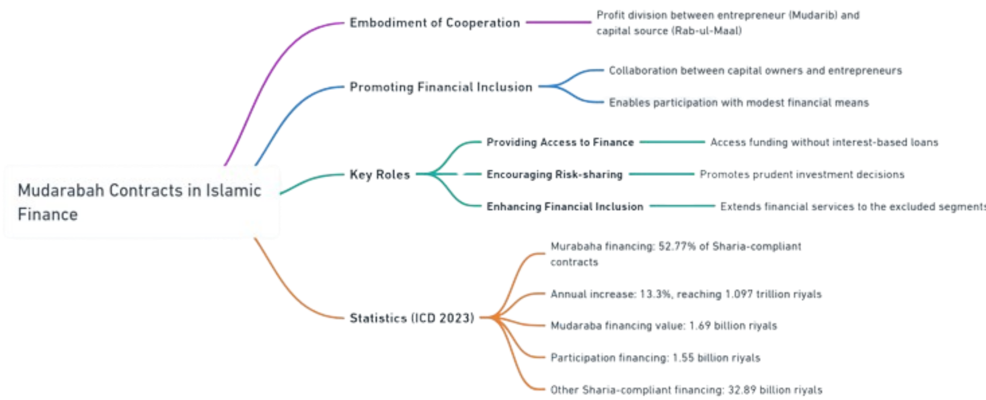

Figure 2: Mudharabah Contract for Financial Inclusion Tools

In Islamic finance, the Mudarabah contract embodies cooperation between an entrepreneur (Mudarib) and a capital source (Rab-ul-Maal), with profits divided according to predetermined terms. This contract promotes financial inclusion by facilitating collaboration between individuals with capital and those with entrepreneurial talents, enabling participation in business endeavors even by those with modest financial means. As demonstrated in Figure 2, Mudarabah contracts can significantly contribute to promoting entrepreneurship and financial inclusion by:

1. Providing Access to Finance: Mudarabah contracts allow entrepreneurs, especially those who may not have sufficient capital, to access funding for their ventures without resorting to interest-based loans, which may be prohibited in Islamic finance or undesirable for some entrepreneurs due to ethical reasons.
2. Encouraging Risk-sharing: Mudarabah promotes risk-sharing between investors and entrepreneurs. This can encourage more cautious but innovative

[49] Khaled, "Obstacles to Islamic Sukuk and Ways of Their Success."

investments, as both parties are incentivised to make prudent decisions to maximise profits and minimise losses.

3. Enhancing Financial Inclusion: Mudarabah contracts can extend financial services to segments of the population that may be excluded from the formal banking sector, such as small business owners or individuals lacking collateral for traditional loans. This contributes to broader financial inclusion by providing access to financial products and services tailored to diverse needs.

Mudharabah financing represented about 52.77% of financing contracts compatible with the provisions and principles of Sharia in the Kingdom at the end of the second quarter of 2023. By 1.097 trillion riyals, recording an annual increase of 13.3%, equivalent to 128.8 billion riyals, as it was 968.32 billion riyals at the end of the same quarter of last year. The value of Mudarabah financing amounted to 1.69 billion riyals, and participation financing amounted to 1.55 billion riyals, while the value of other financing that falls under the classification of financing contracts compatible with the provisions and principles of Sharia amounted to 32.89 billion riyals at the end of the second quarter of 2023, and includes credit cards and other financing forms compatible with the provisions and principles of Islamic law[50].

1.4.2 Musharakah Contract: Facilitating Risk-Sharing for Inclusive Growth

As shown in Figure 3, in the Musharakah contract, partners share profits and losses while contributing money collectively. This cooperative strategy promotes financial inclusion by allowing those with less money to participate in more extensive commercial endeavors. The risk-sharing component of Musharakah is especially advantageous for new and small enterprises, supporting inclusive economic growth by offering a framework for the fair division of profits and losses. This type of contract is often viewed as a way to promote financial inclusion by allowing individuals without access to interest-based loans or traditional banking services to participate in economic activities.

[50] Islamic Corporation for the Development of the Private Sector, "Islamic Finance News" (16-19, East Castle Street, London, W1W 8DY, United Kingdom,: IFN, 2023), https://www.islamicfinancenews.com/supplements/ifn-annual-guide-2023; Islamic Corporation for the Development of the Private Sector, "Islamic Corporation for the Development of the Private Sector" (London, 2023), https://icd-ps.org/en/news/launch-of-icd-lseg-islamic-finance-development-report-2023-navigating-uncertainty.

Figure 3: Musharakah Contract for Financial Inclusion Tools

Musharakah can be a more egalitarian kind of financing since it involves sharing risks and rewards, especially for people who do not have enough assets or credit history to qualify for traditional loans. A musharakah contract can give people and companies, especially those in marginalised or underprivileged areas, the chance to get capital for investments or economic endeavours. This can lessen gaps in access to financial services and encourage economic empowerment. In Saudia, Tawarruq financing came in second place for financing contracts compatible with the provisions and principles of Sharia in the Kingdom (representing 36.06%). Its value reached 732.65 billion riyals at the end of the first quarter of 2023, recording a decrease of 4.7%, equivalent to 36.06 billion riyals, compared to its value at the end of the same quarter of last year, which amounted to 768.7 billion riyals[51].

1.4.3 Ijarah Contract: Expanding Asset Access without Usury

Figure 4 presents the Ijarah contract, which is a Sharia-compliant alternative to traditional leasing agreements. Also known as Islamic leasing, this contract promotes financial inclusion by providing access to resources and services without interest-based transactions. The contract is flexible and allows for leasing a variety of assets, such as equipment and real estate, making it possible for a larger sector

[51] Islamic Corporation for the Development of the Private Sector, "Islamic Finance News" (16-19, East Castle Street, London, W1W 8DY, United Kingdom,: IFN, 2023), https://www.islamicfinancenews.com/supplements/ifn-annual-guide-2023; Islamic Corporation for the Development of the Private Sector, "Islamic Corporation for the Development of the Private Sector" (London, 2023), https://icd-ps.org/en/news/launch-of-icd-lseg-islamic-finance-development-report-2023-navigating-uncertainty.

of society to participate in the economy. To connect the 'Ijarah Contract' to financial inclusion, it is important to recognize its potential as a means of increasing access to resources and funding, especially for underprivileged or marginalized groups.

Figure 4: Ijarah Contract for Financial Inclusion Tools

The Ijarah Contract advances larger financial inclusion goals by providing an accessible and moral financial solution. The Ijarah Contract eliminates the need for interest-based loans, which may be unacceptable or forbidden for some groups for moral or religious reasons, and gives people and companies access to assets like real estate, machinery, and automobiles. In Saudia, Financial lease came in third place with a value of 187.38 billion riyals, compared to 169.63 billion riyals at the end of the same quarter of 2022, increasing by about 10.46% on an annual basis. Ijara sukuk are considered new. The story of one of the first successful issuances of Ijara sukuk dates back to the year 2002, specifically in August, when the Malaysian government decided to issue sukuk to be listed in the global financial markets. (IFN Islamic Finance News. Retrieved) The structure used in this issuance was easy and simple, with the aim of attracting the widest possible investor base. So the government established the Malaysian Global Sukuk Corporation (MGS). The latter issued bonds and put them on the market. She then used the money from these bonds, which she obtained from investors, to buy a number of lands in Kuala Lumpur and its suburbs from another government company. MGS then leased these lands to a specific party. When the leasing period ended, the Malaysian government agreed to buy the lands from MGS according to real estate prices at the time. The Malaysian Global Sukuk Company (MGS) was seen as leasing the lands for the benefit of the sukuk holders, who in turn received rental income and profits from property price appreciation, as returns on the sukuks they had purchased from the Malaysian government[52].

1.4.4 Sukuk (Islamic Bonds): Ethical Investments for Inclusive Development

Figure 5 illustrates sukuk, or Islamic bonds, that conform to Islamic law as property rights. These financial instruments provide an inclusive investment opportunity by allowing anyone to fund initiatives that align with moral principles and Sharia law. Sukuk are crucial for financing infrastructure projects, promoting economic growth, and providing socially responsible investment options.

Figure 5: Sukuk Contract for Financial Inclusion Tools

Even while Islamic banking has advanced financial inclusion significantly, it is important to recognise the underlying obstacles and constraints that might restrict its further influence. It is tal to tackle these concerns in order to cultivate a more sophisticated comprehension of the function of Islamic finance in augmenting financial inclusion.

Within the ICM section, the şukūk sub-segment continued to dominate, growing by 7.0% year over year in 2022 (12.5% in 2021), while Islamic funds had just a slight 1.0% year over year rise in the same time frame. Due to less sovereign issuance and adverse global economic conditions, the şukūk sub-segment's

[52] Islamic Corporation for the Development of the Private Sector, "Islamic Finance News"; Islamic Corporation for the Development of the Private Sector, "Islamic Corporation for the Development of the Private Sector."

growth in 2022 was mild. 15 The GCC area had little demands for sovereign funds. Recently, the international rating agency Moody's issued a report on the global sukuk market indicating the possibility of doubling its size over the next few years. While it indicated that Islamic finance is booming in the world and shows no signs of slowing down in the medium and near term, Moody's estimates the size of the global Islamic market at about $700 billion. The agency considers that Islamic sukuks constitute the financial instrument or the fastest growing segment in this market. Global issuances of Islamic bonds until the end of 2007 amounted to about $97.3 billion. (IFN Islamic Finance News. Retrieved) In 2007 alone, the volume of sukuk issuance grew by 71 percent from what it was in 2006 to reach $32.6 billion, most of which came from Malaysia and the Gulf Cooperation Council countries. The number of issuances also increased to 119 from 109 in 2006, while the average deal size increased to $269.8 million from $175 million. Moody's reports in its report that the largest share of sukuk issued in 2007 was in the financial services sector, amounting to 31 percent, followed by the real estate sector's share of 25 percent, and then the energy sector's share of 12 percent[53].

1.5 Strategic Steps to Advance Financial Inclusion in Islamic Finance

Figure 6 shows that Islamic finance faces several critical challenges that need to be addressed for sustained growth. These include scalability issues of its financial products and the challenge of achieving global integration. While traditional financial systems achieve economies of scale, Islamic banking struggles to do so, limiting its ability to serve a broader customer base. The integration of Islamic financial systems into the global market may be hindered by the varying regulatory frameworks and interpretations of Shariah principles across borders.

Figure 6. Strategic Steps to Advance Financial Inclusion

[53] Islamic Corporation for the Development of the Private Sector, "Islamic Finance News"; Islamic Corporation for the Development of the Private Sector, "Islamic Corporation for the Development of the Private Sector."

Additionally, the lack of education and awareness among the general public regarding Islamic finance presents a major obstacle. Without knowledge of Shariah-compliant products, potential customers may be discouraged from utilizing Islamic financial services. The complexity of ensuring Shariah compliance further compounds these challenges. Reaching consensus on financial structures among Shariah scholars and practitioners can be complex, which may hinder the development and introduction of new, innovative products.

Moreover, technology accessibility remains a barrier, particularly in providing Islamic financial services to underprivileged and remote communities. It is crucial to recognize these constraints to advance Islamic finance and promote financial inclusion. To tackle these issues, strategic recommendations include improving scalability, enhancing global integration, boosting public awareness, simplifying Shariah compliance, and increasing technological access. An inclusive and robust Islamic financial ecosystem can be created through a collaborative effort from regulatory bodies, financial institutions, and the public. This will unleash the full potential of Islamic finance in fostering financial inclusion[54].

CONCLUSION

The instruments of financial inclusion within the Islamic economy are essential for advancing fair access to financial services and stimulating the economy. Sharia-compliant financing and business participation are available to people and enterprises, especially those marginalised by conventional banking systems, through various instruments, including Sukuk, Mudarabah, Musharakah, Ijarah, Wakalah, and others. Notwithstanding the possible advantages of these financial instruments, obstacles still exist. Legal and regulatory frameworks must be appropriately established to promote financial inclusion and assure conformity with Sharia law. To the fullest extent possible, scalability challenges, global integration, public awareness, and technical accessibility stand in the way of Islamic finance's broad adoption and advancement of financial inclusion. Coordinated efforts from regulatory bodies, financial institutions, legislators, and the general public will be needed to address these issues. By removing these obstacles, Islamic economies can develop a more egalitarian and inclusive financial system that empowers people and promotes long-term economic prosperity. In light of the particular potential and difficulties present in Islamic finance, the research highlights

[54] Khaled, "Obstacles to Islamic Sukuk and Ways of Their Success."

the need to further research and improve methods for promoting financial inclusion in the Islamic economy.

DISCLOSURE

Conflicts of Interest

The authors declare no conflict of interest.

Disclaimer Statement

This work constitutes a new research paper and is not part of any thesis submitted to a university for the award of a degree.

Declaration of generative AI in scientific writing

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Author Bionote

Ramzi Abdullah Ahmed Hassan is a seasoned academic with a diverse background. As a lecturer at Seiyun University, he imparted knowledge in Islamic law and Islamic Banking. PhD research scholar in Economics from Swami University, India, and a Master's in Islamic Economics with honours, he combines academic rigour with practical insights. Ramzi has contributed extensively to conferences worldwide, presenting research on digital payments, Islamic banking, and post-disaster reconstruction. His publications in reputable journals delve into Bitcoin economics, prizes in competitions, and the performance of digital payments in Yemen and India.

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