THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

On the topic

"PROSPECTS FOR INTRODUCING ISLAMIC FINANCIAL INSTRUMENTS UNDER CONVENTIONAL BANKING SYSTEM"

Zahra Baghirova Etibar

BAKU– 2021

THE MINISTRY OF DUCATION OF THE REPUBLIC OF AZERBAIJAN

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Code and name of Programme: 060403 - Finance

Specialisation: Financial Management

Group: 654

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BAKU – 2021

Elm andı

Mən, Bağırova Zəhra Etibar qızı, and içirəm ki, “Prospects for introducing Islamic financial instruments under conventional banking system” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

“ƏNƏNƏVİ BANK SİSTEMİ ÇƏRÇİVƏSİNDƏ İSLAM MALİYYƏ ALƏTLƏRİNİN TƏTBİQİ PERSPEKTİVLƏRİ”

XÜLASƏ

Tədqiqatın aktuallığı: İslam maliyyəsi, ümumilikdə maliyyə sektorunun sürətlə böyüyən bir hissəsi olaraq meydana çıxır. İslami maliyyələşmə İslam ölkələri ilə məhdudlaşmır, böyük bir müsəlman icması olduğu yerdə yayılır. İslam faizləri qadağan edir, buna görə də İslam bank sistemi riba (faiz) dail olmayan və şəriət prinsiplərinə uyğun məhsulları əhatə edir, buna görə də faizsiz bankçılıq adlanır. Faizsiz məhsulların tələbi də artdıqca sistem zaman keçdikcə inkişaf edir. Getdikcə daha çox müştəri İslam bankçılığına can atır və bir çox ticarət bankı da ənənəvi məhsullardan ayrı İslam bankçılıq məhsullarını təqdim edir.İslam bankçılığı bəzi qeyri-müsəlman ölkələrində də çox populyardır.

Tədqiqatın məqsədi: Diplom işinin məqsədi İslam bankçılığının funksiyaları, vəzifələri və əməliyyatlarının ətraflı öyrənilməsi.

İstifadə olunmuş tədqiqat metodları: Əvvəlki illərdə tədqiqat aparmış tədqiqatçı və elm adamlarının həyata keçirdiyi sorğu və müşahidə metodlarının nəticələrindən istifadə olunmuşdur.

Tədqiqatın informasiya bazası: Dissertasiyada Azərbaycan, Türk və ingilis dilindəki materiallar və ədəbiyyatdan istifadə edilmişdir. Həmçinin audit hesabatlarından və internet resurslarından da istifadə edilmişdir.

Tədqiqatın məhdudiyyətləri: Tədqiqata mane olan nəzəri və metodoloji çatışmazlıqlar, kifayət qədər məlumat bazasının olmaması və s.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Son dövrlərdə bir çox ölkələrdə ənənəvi bankçılıq olan ölkələrdə də islam bankçılığının tətbiqinin geniş yayılması ilə bağlı məlumatları əhatə edir.

Nəticələrin istafadə oluna biləcəyi sahələr: İslam iqtisadiyyatı və islam faizsiz bank sistemi ilə bağlı fənlərin tədrisində kurs və ya dissertasiya işi edilə bilər, həmçinin Azərbaycanda islam bankçılığının tətbiqi ilə bağlı tədqiqat və araşdırmalarda istifadə oluna bilər.

Açar sözlər: Islam bankçılığı, ənənəvi bankçılıq, islam maliyyə alətləri

“PROSPECTS FOR INTRODUCING ISLAMIC FINANCIAL INSTRUMENTS UNDER CONVENTIONAL BANKING SYSTEM”

SUMMARY

The actuality of the subject: Islamic finance is emerging as a rapidly growing part of the financial sector in the Islamic world.Islamic finance spreads where there is a large Muslim community. Islam prohibits interest, so the Islamic banking system covers products that do not include usury (interest) and are in accordance with the principles of Sharia, so it is called interest-free banking. As the demand for interest-free products increases, so does the system. More customers are seeking banking through Islam and many commercial banks offer Islamic banking products in addition to traditional products.

Purpose and tasks of the research: The purpose of the thesis is to study various issues. It discusses the essence, history, classification and development of Islamic banking.

Used research methods: The results of survey and observation methods conducted by researchers and scientists who conducted research in previous years were used.

The information base of the research: Azerbaijani, Turkish and English literatures were used in the dissertation.Reports and internet resources were also used.

Restrictions of research: Theoretical and methodological shortcomings that hinder the research, lack of sufficient information base, etc.

The novelty and practical results of investigation: Information on the recent widespread use of Islamic banking in countries with traditional banking.

Scientific-practical significance of results: Courses or dissertations can be done in the teaching of subjects related to the Islamic interest-free banking system, as well as in research and studies on the application of Islamic banking in Azerbaijan.

Keywords: Islamic banking, traditional banking, Islamic financial instruments

ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BİMB	Bank Islam Malaysia Berhad
CİS	Commonwealth of Independent States
FSR	Financial Stability Review
DIEDC	Dubai Islamic Economy Development Centre
IDB	Islamic Development Bank
İFİ	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IIC	Islamic Investment Company
MIFC	Malaysia International Islamic Finance Center
UAE	United Arab Emirates
USA	United States of America

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INTRODUCITON

Relevance of the research topic: Islamic finance is emerging as a quickly increasing piece of the financial sector in the Islamic world. Islamic finance is not restricted to Islamic countries, also spreads where there is a great Muslim community. Islam bans interest, so the Islamic banking system covers products that don't contain usury (interest) and are subject to Sharia law, so it is named interest-free banking. As the demand for interest products grows, so does the system. More customers are looking for Islamic banking, and a lot of commercial banks propose Islamic banking products over traditional products. In some non-Muslim countries Islamic banking is famous a lot.

The geography of Islamic finance is divided into Europe, the CIS, the United States, Australia, etc., where more than 300 Islamic financial institutions currently operate. It covers more than 50 countries. Total assets exceeded $ 1 trillion with a yearly growth rate of 10-15% (Bekkin R.I., 2009).

Islamic financial institutions are piece of the contemporary world economy and are subject to the identical economic laws as participants in traditional (non-Islamic) financial markets. The role of Islamic finance in practice gradually is growing, and I am thinking of some of the reasons behind this phenomenon (Srebnik B.V., 2010).

First, the number of Muslims is increasing quickly in a lot of countries. The Muslim community is being taken into account by politicians and economists each year in Europe (N.Tatiana, K.Ighor and S.Liliya, 2015).

Second, there is currently a growing interest among non-Muslims in Halal (permitted) financial products. Sukuk (Islamic securities) investments by European banks have evoked interest among private investors seeking to preserve ethical and / or religious aspects in their investment choices. By choosing products that are in line with Sharia law, they can be sure that they are not making an unethical investment in the religious industry.This can be significant likewise for Christians and Jews:they can be assured that forbidden interest is avoided.

Third, there is a tide of giving licenses and authorizations that allow you to start providing retail banking (mortgages, insurance and loans) as per the Shariah. European governments have altered their strategy, currently they currently call to focus closer on the requirements of Muslim communities in Europe. Authorities started to respond to these unmet requirements. The dread of alienation of a important piece of European society and the hazard of destabilization have played a major role in the change of official position.

Fourth, government officials and conventional banks saw a promising job chance in Islamic banking and finance, rather than the "distribution" of ethnic minorities. At the same time, numerous professional investors want to involve Islamic financial products in their portfolios for expansion aims.

The Problem of statement and level of study: Distinctive features of Islamic financial instruments and ways to develop Islamic banking in transitional economies with traditional banking has been understudies.

Purpose and tasks of the research: The purpose of the dissertation is to study the basics of Islamic finance and application possiblities of Islamic financial instruments, similarities and differences between Islamic banking and the traditional banking system as well as the role of the Islamic banking system in the world.

Object and subject of research: Object is Islaming banking system. Subject financial instituions involved in Islamic banking.

Research methods: Desk research analyzing results of survey and observation methods conducted by researchers and scientists who conducted research in previous years.

Research database: Azerbaijani, Turkish and English materials and literature were used in the dissertation. Audit reports and internet resources were also used. The information base of the research was used in normative documents and legislation, international analytical journals and reports, a number of articles published in periodicals and materials available on the Internet. As a result of the research, practical proposals were formed.

Research limitations: Theoretical and methodological shortcomings that hinder the research, lack of sufficient information base, etc. Legal basis for Islamic finance in our country and the lack of financial institutions working in this area.

Scientific novelty of the research: Information on the recent widespread use of Islamic banking in countries with traditional banking.

Scientific and practical significance of the results: The practical significance of the work can be emphasized that it can be used as a useful database for those who want to do research in this area in the future. In particular, references can be provided as a necessary source when teaching in universities on the topics addressed in the dissertation.

CHAPTER I. THEORETICAL FOUNDATIONS OF ISLAMIC FINANCE

1.1 The concept of Islamic Finance

Islamic teachings cover the substance of economic prosperity and the improvement of Muslims at the individual, family, community and country levels. In order to evaluate Islamic of principles banking and finance, it is important to place them within the framework of Islamic beliefs and philosophies.Therefore, this chapter gives the context of the study of Islamic finance and its accounting and financial accounting in financial enterprises. The chapter discusses the main issues that form the context of this book and form the basis of the important topics I have covered in this study. The key points I have highlighted here cover Islamic economics and financial philosophy, the evolution and development of Islamic law ,islamic financial instruments,principles.As a basic principle, Islam encourages people to play a governing role for the earth and its grace. Another key principle must be ethical in relation to behavior and conduct and reach deep into trade and the economy (Alamad S., 2017).

The Qur'an (the revealed text of Islam) and the Sunnah (the true words, deeds and observations of the Prophet Muhammad (pbuh)) are the main sources of insight into the application of Islamic leadership in trade. One of the strongest rules is the interest rate ban (riba). These and other rules, which I have briefly described in this text, affect how many Muslims want to interact with trade. Although strict adherence to Islamic rules has a significant impact on how Muslims approach banking, the Islamic banking approach is closer to investment banking than other traditional banking activities. Given that investment banking is more about real economic activity and less speculative activity, the Islamic approach can be relatively easily adopted.

History and Development of Islamic Finance

In 650-750, Islam was revealed to the Prophet Muhammad (pbuh) and spread to Mecca and Medina. In the past, these cities developed through local trade and international trade. Interest-bearing loans were the main source of financing at that time. The Meccan businessmen and farmers of Medina took such loans or paid for their material needs. After the emergence of Islam, there was a significant change in the financial practices of these cities. The verses of the Qur'an, which forbade usury, the consumption of certain goods, and the regulation of trade, laid the foundation for Islamic finance. These principles have been successfully applied in both cities and have spread to other parts of the world over the centuries as the state has expanded.

Beit al-Maal (the state treasury) was the central Islamic treasury for the benefit of needy Muslims during the time of the Prophet Muhammad (pbuh), when the Islamic financial system began to develop. The Medina Mosque was used as a treasure by the Prophet (s). However, the second caliph, 'Umar ibn al-Khattab (ra), established and ruled Bait al-Ma'ali as a separate entity. I will discuss in more detail why zakat, land tax or Kharaj, questionnaire tax or Jizyah, customs taxes, donations, real estate and the property of deceased persons without legal heirs are the main sources of income in Bethlehem (Alamad S., 2017).

Between 750 and 1900, there was no significant literature on how Islamic economics and finance developed. There is no detailed information about the financial system, especially in the Ottoman, Mughal, Indian and Damascus periods. It can be said that there is a great expansion in regional, national and international trade spread over Rome, North Africa, Turkey, India and Sumatra. It was mainly based on Musharaka (profit and loss distribution), sales contracts and profit-sharing agreements (Mudaraba). In addition, financial instruments such as Sak or Sukuk, Saftija, Bai 'al-wafa` and Bai' al-naqed have been used and applied (Siddiqi M.N., 2004).

The rapid development of the Islamic finance system and the establishment of Islamic banking took place from the 19th century to the 2000s, in the 19th century. During this period, after the industrial revolution in Europe in the early nineteenth century, there was a significant expansion of the conventional interest-based banking system. Muslim scholars of the time took this expansion of interest-based banking seriously and called for alternative financial instruments within Sharia law to meet the needs of Muslim society. In 1903, when Sharia scholars declared the payment of interest to postal savings funds illegal in Egypt, the Egyptians formally opposed 'interest' in the banking system (Siddiqi M.N., 2004). This was followed by a campaign against interest-based funds for the construction of the Suez Canal, which attracted Barclays Bank. In addition, an institution for interest-free loans was established in India during the 1890s. In 1923, another such organization, Anjuman Imdad-e-Bahmi Qardh Bila Sud (Interest-Free Credit Society), was established in Hyderabad. Later, in the 1950s, a local Islamic bank founded in Pakistan, which is said to be the first modern Islamic finance, an organization, we do not have reliable and sufficient information about this project.

In the late 1950s, the Muslim community successfully developed reliable financing or an interest-free bank based in Mudarabah and an agency or Wakala. The demand for Sharia-compliant banking was met in 1963 by Ahmed al-Najjar, a well-known public activist in Egypt, with the establishment of the Mit Ghamr Local Savings Fund, which was recognized as the first modern Islamic bank. At the same time, efforts were made in Malaysia to develop a savings scheme for Muslims to perform the Hajj, and as a result, the Hajj Savings Corporation was established. Later, in 1969, he was included in the Board of Management and Foundation of Hajj, popularly known as Tabung Haji (Ayub M., 2007).

In 1971, the Nasir Social Bank was set up in Egypt. It was the first state-sponsored interest-free institution founded by a official announcement. The conspicuous Islamic banks ,for example, the Dubai Islamic Bank and Islamic Development Bank were set up in the year 1975 (Siddiqi M.N., 2004).

1.2 Principles and instruments of Islamic financial Institutions

According to the principles and foundations laid down by the Shari'a, the common values that every Muslim businessman must follow, the goals and philosophies of Islamic financial institutions, must be in accordance with the teachings of the Qur'an and the Sunnah of the Prophet. . (s). The elimination of interest is as important as interest, but International Financial Institutions must adhere to all other Islamic principles of business as a debt. As explained above, all teachings applied to Muslims also apply to BMIs. Financial transactions should be based on contracts that do not include garar, maysir and riba.

- Gharar means (extreme) uncertainty or uncertainty in a contract; this can lead to disputes over rights and obligations and the performance of the contract, but can also mean deception. Gharar, for example, exists when the description of the goods to be delivered is not specified in the deferred sales contract or in the deferred delivery contract. Another example is the sale of the fruit of a particular tree when a tree begins to bloom; it is not clear whether it is possible to deliver the goods sold here. To avoid Gharar, the contract must be likely to be executed by both parties and by all relevant transaction parameters, for example, the sale contract must have at least the price, specification and quantity of goods, payment terms and delivery date known. Since uncertainties cannot be completely eliminated, a mild Gharara is allowed, which is not deceived and known and accepted by the parties to the agreement. Otherwise, Gharar's presence cancels a contract. A key condition for the validity of a commutative contract is, for example, a contract in which each party gives and receives an equivalent reverse value, for example, in a sale contract. Under these conditions, the assessment must be clearly known. Uncertainty over a sale price or rent often terminates the contract. If a trade deal is made without a price, most Muslim lawyers are too black. However, some lawyers claim that goods with a standard market price can be sold without specifying a price, and that the market price of these goods will be taken as the selling price. For example, if goods are purchased from the neighborhood grocery store for daily use and the bill is paid at the end of the month, the contract will be valid because the standard market price will be used, such a sales contract called Istijrar (Alamad S., 2017).

- Maysir means gambling: a person can win or lose something valuable only by chance. In games of chance, one side's win is the other's loss. The transfer of assets from the loser to the winner as a result of gambling is against Islamic law and cannot be applied in Sharia.
- Riba is understood by Islamic finance advocates as an interest-based loan, regardless of the level of the interest rate or the purpose of the loan (production or consumption). From an economic point of view, the ban on riba is the most important and defiant guidance in the Qur'an.

Prohibition of Interest or Riba

Riba (or usury or interest) is the premium paid by the borrower to the money lender alongside the chief sum as a state of the advance. It implies the increment, expansion, development or development in the cash that is owed. Thus Riba or premium methods bringing in cash from cash. The qualities of interest or Riba are that it is fixed and positive, the measure of Riba relies upon the measure of the advance and for the time of the advance, and that it is ensured installment regardless of the result of the reason for which the sum was acquired. Islam believes Riba to be unmerited and inappropriate pay and disallows all types of it little or enormous, simple or compound.

Islam is not the only one to enforce this ban. Both Judaism and the early forms of Christianity considered the interest on the loan to be unfair and illegal because the lender collected a fixed amount of interest and the money borrowed had nothing to do with profit or loss. Later, both Judaism and Christianity accepted interest as the price of borrowed funds. The church had considerable wealth and was a major lender from the middle Ages to the thirteenth century, and to facilitate this, the interest debts of

Christians were legalized in Valencia in 1217 and in Florence in 1403.This formed the basis of the traditional banking industry, which offers interest-based deposits and loans.

There is no doubt about the interest ban or Riba under Sharia law. This ban continues in Islam and is the main reason for the need to establish an Islamic financial and banking system without interest for people of Muslim faith. Islamic finance and banking replaced interest-based banking by sharing profits and losses by both the fund provider and the fund user or entrepreneur. In the traditional system, a funder earns interest regardless of the outcome of the fund use, while in the Islamic system the funder shares the profit at a pre-determined rate. In the event of a loss, the interest must be paid to the conventional bank, while the Islamic bank bears the loss and the entrepreneur loses time, effort, and any income he can earn. As such, the traditional bank places the most emphasis on the creditworthiness of the borrower so that interest and principle are paid; The Islamic bank focuses on the soundness of the project for which the funds will be used and on the entrepreneur's abilities because the higher the profit the project, the more the Islamic bank earns.

Riba is prohibited by Islamic Sharia law due to its detrimental effect on people's personal, social and economic lives. Some of the criticisms of Islamic jurists and Islamic economists against Riba are as follows.

1. The borrower pays interest to the lender, regardless of the profit or loss of the economic activity in which the borrowed money is borrowed. If the profit of the case is less than the interest payment or there is a loss, the borrower still has to pay interest and may go bankrupt. This is detrimental to the borrower and the society and economy in which he operates.
2. The lender is paid a fixed interest rate. If things go very well, the interest rate will remain the same, so the lender will not be able to enjoy the high return.
3. In an interest-based system, the distribution of assets is inefficient because economic activity is more about the borrower's creditworthiness and the security that the borrower can provide, rather than productivity or the borrower's skills.

Riba is of two types.

- Riba al Nasiah. This is the fundamental kind of Riba, which is the interest paid on credits. It is the extra sum paid alongside the head and it is chosen dependent on the chief measure of the credit and the period for which the advance is given. It is considered as a low expansion in the measure of the credit, which is fixed ahead of time and has no association with the financial movement for which the advance was taken.
- Riba al Fadl. This Riba happens while trading similar sort of merchandise, a more modest measure of prevalent quality with a bigger measure of mediocre quality. Riba al Fadl is likewise relevant when cash is traded for cash however in various sums, or when products that were utilized as cash like gold, silver, dates, wheat, grain and other homogenous merchandise are traded against themselves in inconsistent extents. In contemporary Islamic money, unfamiliar cash exchanges are worthy as long as they are finished up on the spot, hand to hand. For this situation one cash is seen as cash while the other is considered as the product bought (Habib S.F., 2018).

Disallowance of Uncertain Dealings or Gharar

The second significant prohibit in Islamic finance is Gharar. Gharar implies facing over the top risk or having superfluous vulnerability in an agreement. Islam requires all parts of the exchange or agreement to be straightforward and known to all gatherings, subsequently fundamentally diminishing clash. A few circumstances where Gharar could exist are as follow.

1. The offer of things which don't exist or whose qualities are not sure. For instance, the harvest of a field that has not yet been developed. (Istisna and Salam are exemptions for the standard of a thing not existing)
2. Goods that are difficult to convey. For instance, a new organic product during a season it doesn't develop
3. A deal contract is executed without indicating the cost.

4. When the installment terms and conveyance plan are not indicated in a conceded deal.
5. A business or exchange where there is no sureness about the outcomes theoretical exercises.

When all parts of the agreement are not known by every one of the gatherings, there is absence of straightforwardness (Habib S.F., 2018).

Preclusion of Gharar resembles the administrative insurance given by contemporary protections law, which necessitates that clients' assets are secured by giving clear details of the speculations and by straightforwardness of the agreements. In current Islamic account Gharar can be of two sorts: Gharar Fahish, which implies a generous measure of the offensive trademark and is disallowed and Gharar Yasir, which implies a trifling measure of the frightful trademark and is endured by Shariah decisions.

Prohibition of Speculative Behaviour or Maysir

Maysir is the third significant preclusion. Maysir incorporates a wide range of tosses of the dice or dealings where one can acquire essentially or lose all relying upon what direction the arrangement moves and is restricted by Shariah law. It incorporates a wide range of betting, where a gathering can endure all out misfortune dependent on simple possibility or put forth a generous addition with no attempt. Maysir is denied in Islam since it prompts succeeding to the detriment of others losing, so it is socially unsatisfactory. Maysir is unique in relation to chance in regular day to day existence or in business, which is adequate. It is hazard taken to win with no beneficial movement included and has the chance of losing everything.

Other principles of Shariah law include the following.

1. **Encouragement to utilize benefit and misfortune.** Contracting parties reserve the option to partake in the profits as long as they share the danger likewise; this benefit and misfortune framework is urged as a choice to intrigue based customary account.

2. **Requirement for Shariah-agreeable agreements.** The subject of the agreement and the way toward executing the agreement ought exclude any component that is announced as Haram or not passable in Islam, for instance, liquor, pork, grown-up amusement, and so on
3. **Avoid accumulating.** Dealers are not permitted to accumulate labor and products to compel costs up, as this would make difficulty the individuals who need them, and are urged to sell at a sensible cost regardless of whether there is a lack on the lookout.
4. **Avoid exploiting the merchant.** In the event that the purchaser knows that the merchant is under coercion and is compelled to sell at a misfortune, Shariah necessitates that the purchaser follow through on a sensible cost and not exploit the vender's challenges.
5. **Freedom of agreement.** All gatherings in the agreement have commonly assented to be important for it.
6. **Original admissibility.** Everything is reasonable except if there is a decision in Shariah that makes it impermissible.
7. **Interests of society.** The wellbeing of society are a higher priority than those of the person.
8. **Relieving of difficulty as opposed to giving of advantages.** Both are significant, however in the event that one must be picked ridiculous, calming of difficulty would be given more significance.
9. **Small versus greater.** To kill a little misfortune a greater misfortune can't be dispensed, and to keep a little advantage a greater advantage can't be surrendered.
10. **Removing outrageous difficulty.** At the point when no other decision exists to eliminate outrageous difficulty even something unlawful is acknowledged, such as eating pork when no other food is free and one could starve(S.F.Habib, 2018).

The principle recognizing highlight of Shariah law from its Western partner is that it is totally religion-based, and its decisions get from the Quran and the Sunnah. The early starting points of most overall sets of laws, including the Western regular framework, were likewise founded on the standards of a particular religion, albeit these general sets of laws have since moved away from their strict premise and become free assemblages of information. In the interim Shariah law actually recommends totally the decisions of Islam and has effect on all parts of a Muslim's life singular, social, financial and political, including suitable private and public conduct, property proprietorship and family law. Another remarkable part of the Shariah law is that it isn't nation explicit, yet relevant to Muslims in all nations. In Muslim-larger part nations Shariah law (or parts of it) is material at State level, while in non-Muslim nations it would be applied casually to the Muslim populace. The Western overall set of laws shows critical consistency around the world, while Shariah law can be deciphered contrastingly by the different ways of thinking and this is a significant test of Shariah law.

Islamic financial instruments

The economic exercises in any financial framework can be seen as agreements between monetary agents.The safeguarding of property rights and the obligation to commitments and duties related with an agreement are indispensable in deciding the guidelines of conduct expected of the monetary specialists and, at last, the idea of the financial framework in Islam.

In Islam, an agreement is considered lawful and legitimate by the Shari'ah if the details of the agreement are liberated from any forbiddance. At the end of the day, if an agreement doesn't have or include any of the disallowed components, for example, riba or gharar, and doesn't disregard some other principle or law it is considered substantial. For instance, albeit an agreement to put resources into an organization creating liquor might be liberated from riba and gharar, it would in any case be invalid according to the Shari'ah, since it manages the creation of liquor, which is restricted in Islam. A few business contracts have their underlying foundations in the pre - Islamic period however have been additionally evolved and generally rehearsed after their similarity with the standards of Shari'ah was learned and affirmed.

The Islamic monetary framework has a bunch of center agreements, which fill in as building blocks for planning more modern and complex monetary instruments. There is no settled classification of agreements in the Islamic general set of laws all things considered, yet from a business and business perspective, certain agreements can be assembled by their capacity and reason in the financial and financial framework.

Figure 1: Islamic financing techniques: equity-based instruments.

Source: Financial and Accounting Principles in Islamic Finance, 2019.

From the outset I talk about the primary category.The value based agreements class incorporates the Islamic money standards of association (Musharaka), benefit sharing (Mudaraba), venture office (Wakala), trailed by considerably less normal standards, like Mugharasa, Musaqa and Muzar'a (work and materials benefit sharing agreements identified with agrarian financing). As the center of these three standards is work and benefit sharing game plan, it would fall under Musharaka instruments.

Financial Instruments Based on Partnership (Musharaka) Contracts

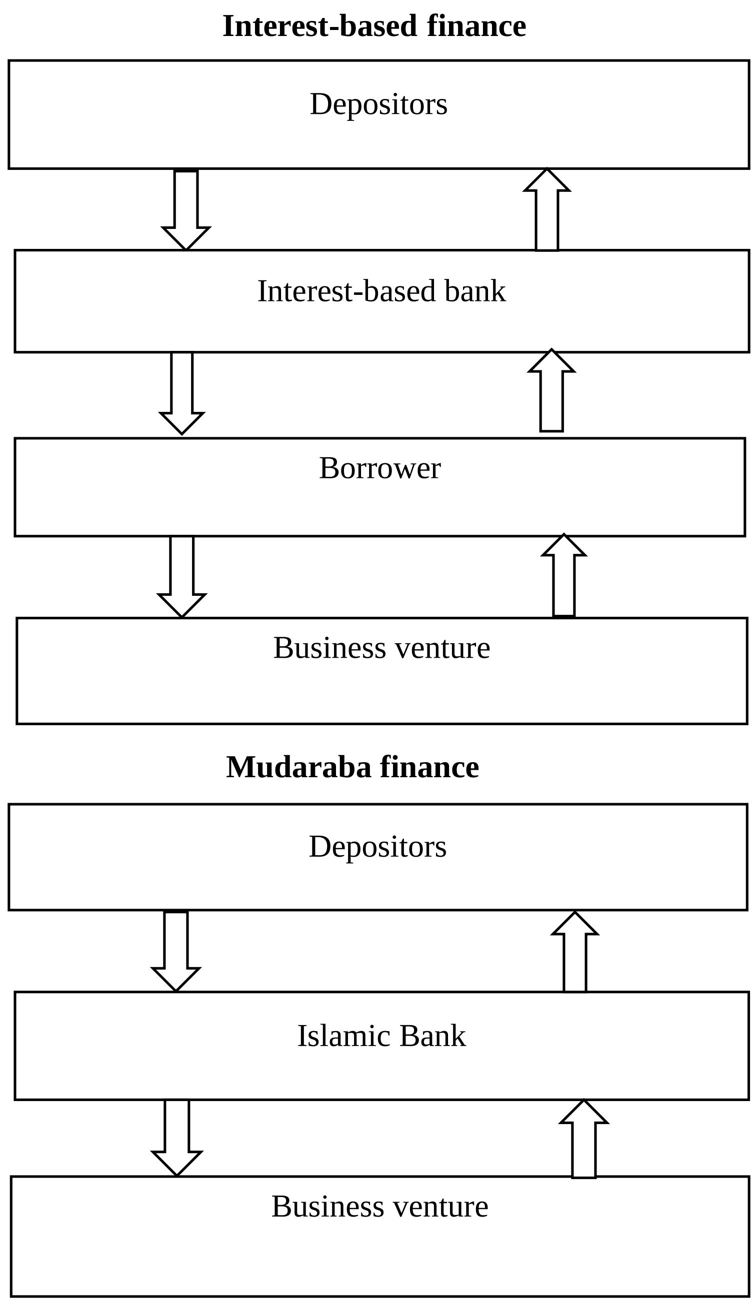
The word Musharaka in Arabic is a subordinate from the root word (sharika) or to share. Musharaka (sharikatul al-'anan) is an association between at least two gatherings whereby each accomplice contributes a particular measure of cash in a way that gives every one an option to bargain in the resources of the organization, on condition that benefit is to be circulated among the accomplices as indicated by the organization understanding and misfortunes are to be borne by the accomplices as per the commitment of each accomplice to the Musharaka capital.

AAOIFI(Accounting and Auditing Organization for Islamic Financial Institutions) compares the advanced musharaka with the traditional authoritative association (sharikat al-'aqd). AAOIFI's Shariah Standard No. 12 (received in 2002) characterizes an authoritative association (and consequently a musharaka) as an organization "between at least two gatherings whereby each accomplice contributes a particular measure of cash in a way that gives every one an option to bargain in the resources of the association, on condition that the benefit is circulated by the organization understanding and that the misfortunes are borne as per the commitment of each accomplice to the capital."

Along these lines, the monetary bookkeeping treatment of the organization agreement would be founded on the most widely recognized design in Islamic banks, which is appeared in Figure 2, and I would join other general parts of the association contract. This is on the grounds that, for example the decreasing musharaka structure embraced broadly by Islamic banks did not depend on benefit sharing as the bank goes into this association to empower the customer to buy their home or business property. The bank makes its benefit from renting its offer in that property to the customer. Along these lines, the property isn't an undertaking between the gatherings, it is fairly an organization for explicit financing end, where the customer isn't in it to make benefit from ordinary pay created by this undertaking.

One method of showing the thing that matters is to think about the functioning mechanics of a traditional bank and its relationship with contributors and borrowers and contrast this plan and Musharaka finance in an Islamic bank (see Figure 3).Although profit-sharing and premium based loaning may appear to be indistinguishable, the distinctions are plainly more than semantic ones. The yield isn't ensured in the profit-sharing mode. Likewise, in interest-based loaning the credit isn't dependent upon the profit or misfortune result, and is typically gotten, so the account holder needs to reimburse the acquired capital in addition to the fixed (or foreordained) interest sum.

Figure 2: Conventional interest-based finance as compared with Mudaraba.



Source: Introduction Islamic Banking and Finance, 2011.

Mudaraba (Venture Capital): Silent Partnership

The term Mudaraba is gotten from the expression al-darb fil al-'ard found in the Quran, which intends to make an excursion. It is alleged in light of the fact that a specialist endeavors and works over the span of a business, and by and large, making ventures is an inescapable and fundamental piece of this difficult work or work. Mudaraba is a type of organization in benefit whereby one gathering gives capital (rab-al-maal) and another, the board ability or work (mudarib).

For commonsense purposes, mudaraba can be viewed as a unique instance of musharaka, albeit the Shariah foundation is to some degree extraordinary. All in all, a mudaraba is a musharaka to which one gathering gives just capital (however no work) and the other party gives just work (innovative abilities, yet no capital). The capital supplier (financial backer) is called rab al-maal, the administrator of the organization is called mudarib (Sadique M.A., 2012).

Contrasts Between Mudaraba and Musharaka

AAOIFI has recorded the conditions for mudaraba contracts in the Shariah Standard No. 13 (embraced in 2002). The main conditions which vary from musharaka are the accompanying:

- A mudaraba is normally an authoritative game plan for a predefined length
- Only the work giving gathering has the privilege to deal with the association. The overseeing party can't guarantee a fixed remuneration (charge) for its innovative endeavors. All things being equal, it will get a portion of the net benefit (assuming any).
- Profits are to be shared by concurred rates of the benefit. It isn't reasonable to dole out a fixed sum or a level of the cash-flow to one gathering.
- It is allowable "to change the proportion of conveyance of benefit whenever and to characterize the span for which the understanding will stay substantial."

- As in the musharaka contract, it is allowable to specify an exhibition charge for the overseeing party: Profits past a specific benchmark sum can be doled out to the chief (altogether or part of the way through a higher sharing proportion than the one which is applied to benefits up to the benchmark).
- Mudaraba is a trust-based agreement. The mudarib who is contributing capital isn't obligated for misfortunes besides in instances of unfortunate behavior, carelessness and penetrate of the details of the agreement. Misfortunes which result from the "ordinary business" must be borne by the capital giving gathering, while the endeavors of the pioneering accomplice go unrewarded. Misfortunes must be presented and ought to be balanced by future benefits. Distributable benefits must be perceived or asserted after the mudaraba capital has been reestablished. Benefits or misfortunes should be determined preposterous term of the mudaraba and can be resolved at last just on the liquidation date (Sadique 2009).
- The last appropriation of benefit ought to be made dependent on the selling cost of the Mudaraba resources, which is known as genuine valuation. It is additionally allowable that the benefit be circulated based on useful valuation, which is valuation of the resources based on reasonable worth. Receivables will be estimated at the money same, or net feasible, esteem, for example after the derivation of an arrangement for far fetched obligations. In estimating receivables, neither one of the times esteem (loan fee) nor rebate on current incentive for augmentation of time of installment will be thought about.
- The contract building up a mudaraba characterizes the system for the utilization of the mudaraba capital. This can be extremely broad in an "unhindered mudaraba" (e.g., to utilize the mudarabah capital in any benefit creating arrangement), or explicit: In a "limited mudaraba" the rab al-maal can confine the exercises of the mudarib to a specific area or a specific kind of venture (e.g., to back the import of development vehicles). Unhindered mudaraba is of specific pertinence for the

general "store business" of Islamic banks, while limited mudaraba can be the reason for a focused on project financing.

There is no common office connection between the accomplices on the grounds that just one gathering has the privilege to deal with the mudaraba. The end of a mudaraba by a one-sided presentation is conceivable just before the mudarib has started the concurred business.

The mudaraba association isn't an obligation connection: The rab al-maal isn't a loan specialist and the mudarib isn't a borrower. The rab al-maal stays the proprietor of the capital, and the mudarib is the trustee of the mudaraba resources. The responsibility of the rab al-maal for activities of the mudarib is restricted to the measure of the mudaraba capital.

Islamic financial analysts have engendered musharaka and mudaraba associations as "the" Islamic option in contrast to regular money dependent on obligation. A monetary framework dominatingly dependent on value like agreements with benefit and misfortune sharing (PLS) courses of action between capital suppliers and enterprising accomplices ought to be better than traditional money in a few regards (Ayub M., 2007). For instance, it is viewed as more since it disperses monetary dangers and rewards more impartial among agents and business people, and more steady on account of unrivaled stun ingestion characteristics or value. Lamentably, the truth of Islamic banking so far doesn't satisfy the elevated requirements.

One method of showing Mudaraba is to notice the functioning mechanics of a traditional bank and its relationship with investors and borrowers and contrast them and Mudaraba finance in an Islamic bank. Despite the fact that profit sharing and interest-based loaning may appear to be indistinguishable, the distinctions are obviously more than semantic ones. The yield isn't ensured in the profit-sharing mode. Also, in interest-based loaning the advance isn't dependent upon the profit or misfortune result, and is typically gotten, so the indebted person needs to reimburse the acquired capital in addition to the fixed (or foreordained) interest sum paying little mind to the subsequent yield of the capital. Subsequently, with interest-based loaning, the financial misfortunes fall most straightforwardly upon the borrower.

Under Mudaraba, financial misfortunes are borne totally by the bank. The business visionary, thusly, sacrifices his time and exertion put resources into the venture and the prize for his work. This appropriation successfully treats human resources similarly with financial capital.

Accounting of Sale-Based Contracts

Murabaha (Mark-Up Sale Contract)

A murabaha is an agreement whereby an Islamic bank as the vender offers to its client as the purchaser a resource at its own procurement costs in addition to a characterized and concurred benefit increase. The word Murabaha is gotten from the Arabic word 'Ribh', indicating benefit or gain. This increase might be a level of the selling cost or a single amount. This exchange might be finished up either without an earlier guarantee to purchase, a standard Murabaha, or with an earlier guarantee to purchase, put together by the individual keen on gaining products through the foundation for example Murabaha to the buyer request (the client). This exchange is one of the trust-based deals as the dealer unequivocally uncovers the price tag and overall revenue to the purchaser. Regardless, the resource should be in presence and possessed by the vender, and the merchant needs to uncover the securing expenses to the purchaser. The securing expenses can include the buying cost of the resource (paid by the vender to the provider of the resource) in addition to any immediate procurement expenses of the merchant. Should the dealer get a rebate from the supplier of the resource, at that point this decrease of the procurement costs must be given to the client.

The credibility and tolerability of the Murabaha bargain is gotten from the abstains of the Quran where Allah, Most High, says, "The people who eat Riba(usury) will not stay (on the Day of Resurrection) except for like the leftover of an individual beaten by Shaitan (Satan) driving him to madness. That is because they say: "Trading is only like Riba (usury)," while Allah has permitted trading and no-no Riba (usury).

Salam (Forward sale)

In pre-Islamic occasions, dealers utilized their own cash-flow to pre-money the creation of nonexclusive products (fungibles), specifically occasional merchandise like horticultural produce. They purchased the future creation (gather) and addressed a cost now, which was not exactly the normal spot cost when the creation would arrive at the market. Prophet Muhammad (pbuh) acknowledged this sort of agreement (called "salam"), yet he indicated certain conditions to make a salam contract substantial. The agreement must be recorded as a hard copy and all fundamental highlights must be fixed, like the sort of products, their quality and amount, the terms of conveyance (on a fixed date or inside a scope of dates) and the cost to be paid when the agreement is finished up. This is to keep away from vulnerabilities which could prompt debate.

Salam contract is known to be an exemption for the standards of offer agreements as it doesn't meet the overall Shariah decide that satisfies "you should not sell what you don't possess". A few legal scholars contend that this standard is just pertinent for merchandise that are accessible on the lookout. They should be possessed before they can be sold, while products that are not accessible in the market can't be claimed before they are sold. Different legal scholars would consider salam contract as a special case from this overall standard, which can be advocated as follows: The reasoning for the disallowance to sell objects which one doesn't claim is to forestall hypothesis, misrepresentation and debates since one gathering can't satisfy its authoritative commitments. If there should be an occurrence of occasional rural items, these merchandise may not be accessible available during specific occasions, however they consistently go to the market after collect, given the ranchers are in a situation to procure the essential contributions for their creation.

The need of a pre-financing of the creation is perceived. At that point there is a high likelihood that occasional products will open up under ordinary conditions, and consequently additionally a high likelihood that an agreement for the conveyance of an amount of fungibles for example nonexclusive products, for example, wheat of a specific quality, however not explicit merchandise, for example, wheat from a specific field or rancher can be satisfied. Thusly, the salam contract with its particular specifications meets the aims of the overall rule and can be acknowledged as an exemption from this Shariah rule.

Istisna'(Manufacturing Contract)

The word Istisna' is a subsidiary from the root word 'Sana'a, which intends to produce or to build something'. Istisna' is an agreement of offer of determined things to be produced or built with a commitment with respect to the vender to convey them to the buyer upon consummation. AAOIFI Shariah Standard No. 11 characterizes istisna' as "an agreement of offer of indicated things to be made or built, with a commitment with respect to the maker or manufacturer (worker for hire) to convey them to the client upon consummation."

Ijarah

The expression "ijarah" is generally compared with ordinary renting, however it has a more extensive significance. It is, in legitimate terms, an offer of a usufruct (advantage) or of an assistance. The premise of the Islamic account guideline of ijarah is gotten from the Quran.

Accounting of Debt-Based Contracts

Qard (Interest-Free Loan)

Qard is a without interest advance in a business setting which makes an obligation with enforceable commitment to repay the credit as indicated by concurred terms. A qard office assumes a significant part for keeping up the dissolvability of the danger pool in a takaful endeavor. It includes the exchange of proprietorship in fungible abundance to an individual on whom it is restricting to return abundance like it. Then again, Qard al-Hasan (Benevolent Free Loan) is a free advance for altruistic purposes; the reimbursement of the advance sum is an ethical commitment of the borrower, yet the moneylender ought to be careful and try not to demand the reimbursement if that would make difficulty the borrower.

There are significant necessities that ought to be considered in a qard Contract:

(a) The agreement of qard is closed through offer and acknowledgment.

(b) Both the bank and account holder should have lawful ability to go into this agreement.

(c) Qard can be for a particular timeframe or it very well may be given without a particular time-frame specified for reimbursement.

(d) It isn't allowed for a bank to specify or a borrower to broaden, any extra installment or different advantages, regardless of whether the overabundance far beyond the credit sum is as far as quality, amount, substantial or elusive structure, and whether the specification is at the hour of agreement or at a later stage during the agreement.

(e) An overabundance over qard is allowed at the hour of its reimbursement when it isn't specified, regardless of the topic of qard being cash or in kind. The leaser is permitted to charge the borrower any real expense brought about to dispense the qard sum, for example, settlement charges.

Amanah (Trust Deposit)

Amanah in a real sense implies trust. In fact, it is a significant worth of Islamic culture in common dealings; it likewise alludes to stores in trust. An individual may hold property in trust for another; it involves the shortfall of any risk for misfortune, aside from penetrate of obligation, carelessness or unfortunate behavior.

Under amanah course of action, the Islamic bank regards the assets as a trust and can't utilize these assets for its activities; it doesn't ensure the discount of the store if there should arise an occurrence of any harm or misfortune to the amanah coming about because of conditions outside its ability to control. In wadiah, in any case, the bank is considered as a guardian and trust of assets and has the investors' consent to utilize the assets for its activities in a Shariah consistent way.

Wadi’a (Safe Custody Deposit)

The term wadi'a is gotten from the Arabic action word (Wada'a), which intends to leave, hotel or store. Wadi'a in the lawful sense means a thing depended to the consideration of another. The owner of the resource is known as Muwdi' (investor), the individual depended with it is known as Mustawda' (caretaker) and the kept resource is Wadi'a. The idea of wadi'a isn't explicitly referenced in the Quran. Notwithstanding, to the extent supervision, which is firmly identified with trust is worried, there are a few signs on this idea, which can be seen in the Quranic refrain.

Accounting of Charitable Contracts

Takaful (Cooperative Financial Arrangement)

Takaful is regularly alluded to as Islamic protection. It is a monetary exchange of common co-activity between numerous gatherings with the target of giving monetary protection from a startling material danger. In a takaful relationship, the members together add to a pooled reserve for the motivations behind giving common reimbursement and insurance to any of the members presented to characterized risk(s). All members are guarantors and guaranteed simultaneously.

A risk is the chance of misfortune in an occasion. It is an unavoidable piece of life in light of the fact that pretty much every human undertaking conveys hazard. It identifies with dubious occasions later on like mishaps, burglaries, catastrophes or demise that may bring about misfortune, harm and monetary challenges. Protection is one of the significant apparatuses accessible to oversee such dangers. Islamic law doesn't disallow the idea of hazard the board however advances hazard the executives with a couple of conditions. It states, for instance, that there ought not be theory on hazard revenue driven making and there ought not be an occasion where somebody benefits to the detriment of others. The endeavors to handle the issue of hazard inside Shariah standards have brought about the development of takaful.

Takaful, with its essential rule of common commitment and shared repayment, has been polished for quite a long time. Takaful is assuming a crucial part in relief and the board of hazard as per Shariah standards. The possibility of takaful is fundamentally to share the misfortune which would be borne by every one of the members in the takaful item, instead of moving it to an insurance agency or safety net provider, as rehearsed in regular protection. Takaful, as characterized by AAOIFI Shariah Standard No. 26, is an interaction of arrangement among a gathering of individuals to deal with the harm/wounds coming about because of explicit dangers to which every one of them are powerless.

A cycle is subsequently started, including installment of commitments as gifts, and prompting the foundation of a protection store that appreciates the situation with a legitimate element and has free monetary obligation. The assets of this asset are utilized to repay any member who experiences a predefined hazard under the particulars of the takaful arrangement, subject to a particular arrangement of rules and a given interaction of documentation. The asset is overseen by either a chosen gathering of the takaful members, or a business entity that deals with the takaful tasks and contributes its resources for a predefined charge.

Takaful is applied by Islamic monetary establishments to give a takaful and re-takaful instruments as an Islamic option in contrast to the ordinary protection and re-protection instruments. Likewise, a sans interest overdraft office as a worth added highlight, current record and Visa.

It is essential to comprehend the specialized contrasts between legally binding customs under Takaful and those under traditional protection. Table 1 describes differences between Takaful and traditional insurance.

Table 1: Key differences between Takaful and conventional insurance.

Takaful	Conventional insurance
Takaful depends on collaboration and is bereft of interest (riba) and other disallowances.	Customary insurance incorporates revenue, vulnerability (gharar) and different restrictions.
The presence of a legitimate control authority (Sharia'a board) to guarantee that every one of the exercises are finished by Sharia'a and drained of any denials.	The presence of a specialized advisory group as it were.
The first top notch installment returns to the safeguarded in the wake of deducting a lot of the reimbursements and costs.	Neither the first premium nor any piece of it returns to the guaranteed.
The profits of contributing charges have a place with the safeguarded subsequent to deducting the administrator's offer as a Mudarib.	The profits of contributing expenses and resources have a place with the business insurance agency as it were.
The administrator points basically at accomplishing collaboration among local area individuals and building up the Ummah (the country of Islam).	The organization targets accomplishing the most elevated profit workable for its proprietors.
The administrator's profits are the consequence of putting away its cash, its offer as a Mudarib and the charges for running protection activities.	The organization's benefits are the aftereffect of putting its cash notwithstanding the business benefits coming about because of the whole protection tasks.
The administrator has a fixed capital that has a place with the members and 'variable' capital that has a place with the policyholders.	The organization has one wellspring of capital that has a place with the business organization in particular.

Soruce: Introduction to Islamic Banking and Finance, 2011.

CHAPTER II. Implementation of Islamic Finance

2.1 Contemporary Islamic banking practices.

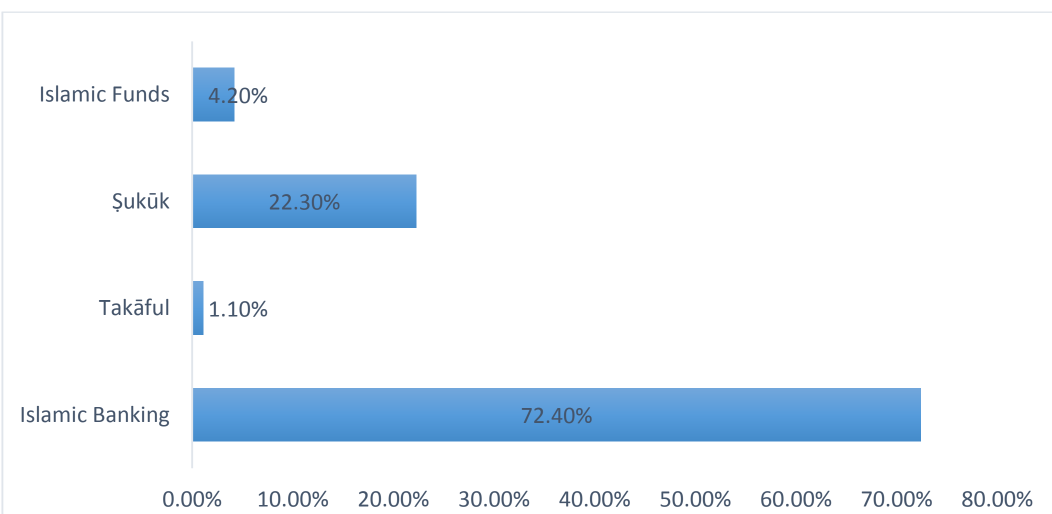
Banks are organizations authorized by the national bank and permitted to take stores from individuals. They additionally give a large group of different items and administrations including giving advances, gathering checks, drafts, moving cash, giving ensures, managing in unfamiliar trade and helping the customer to contribute. From the monetary perspective, Islamic banks have a comparable part to that of ordinary banks. Banks utilize the assets gathered as stores to give financing to different customers and contribute their own and client stores.

The uniqueness of the Islamic bank comes from the way that all exchanges should be as per the Islamic Shariah standards. The Islamic bank gives all normal business banking administrations inside the Shariah structure, chiefly consolidating the disallowance of premium or Riba, which is a key distinction from the regular banks, in Islam cash is just a vehicle of trade and is a factor of creation utilized for business exercises. Conversely, traditional account thinks about cash as an item, with characteristic worth, permitting cash to bring in more cash, which is revenue or Riba. Riba is the increment in the chief measure of a credit, determined dependent on the measure of advance and the period for which it was loaned. In Islam, all types of interest are restricted, little or enormous, basic or build.

The focal issue to be addressed during the time spent creating present day Islamic banking is to distinguish an appropriate option in contrast to the premium based system. This was accomplished by supplanting Riba or premium with a benefit and misfortune sharing system in Islamic banking, and this will be examined further later in this part. Shariah additionally requires the loan specialist or financial backer or account supplier to interface the subsidizing to genuine resources or ventures, hence the pay would either be founded on benefit and misfortune partaking in value like exchanges or benefit from an expense in addition to deal or from the rentals of a rent exchange. These instruments will be centered around later in the book. Inferable from their accentuation on the genuine resource and partaking in the benefit and loss of the business action that is subsidized, Islamic banks give more accentuation to the profitability of the business and the administrative abilities of the bor-rower, instead of simply the FICO assessment of the borrower and any guarantee gave.

Present day Islamic banks, similar to the ordinary banks, plan to give a proficient monetary framework through the interaction of monetary intermediation, dependable installment systems, compelling connections to the cash and capital business sectors and normalization and globalization of the business. All monetary courses of action in the Islamic banks are connected to resources in the genuine area, consequently offering some benefit expansion to the genuine economy and sharing the danger and return. Islamic banking permits Muslim contributors to become accomplices in organizations as opposed to being lenders, where both the supplier and the client of assets share in the dangers and returns of the business. In traditional banking both the depositor and the bank procure fixed revenue, while the danger of misfortune has a place just with the borrower or business person. Interestingly, on account of Islamic financial investors, bank and borrower or business person all offer in the dangers and returns of the business.

Figure 3: Segmental Composition of the Islamic Finance.



Source: IFSB Report, 2020.

The basic goals of an Islamic bank are:

1. To offer Shariah-agreeable monetary administrations.
2. To stay away from all Haram exercises and be engaged with Halal exercises as it were. Instances of Haram exercises are those including liquor, pork, grown-up amusement, betting, interest-based organizations, and so on.
3. To create exchanges that are liberated from Riba, Gharar and Maysir.
4. To abstain from utilizing cash as a ware and bringing in more cash from it, and rather backing each monetary exchange with genuine resources.
5. To give more worth to human endeavors in the undertaking, as opposed to the cash just; cash gets capital solely after it is put resources into the business.
6. To assign assets productively and disseminate pay fairly.
7. To focus on monetary improvement by distinguishing effective business openings, stressing profitability instead of financial soundness of the borrower as it were.
8. To urge savers to contribute as opposed to keep their cash inactive, invigorating the economy and urging business visionaries to most extreme productivity.
9. To demonstration in a way that is moral and socially, ethically and ecologically capable (Habib S.F., 2018).

Islamic banking versus conventional banking

Regardless of the numerous distinctions of Islamic banking as opposed to ordinary banking, the two frameworks seem, by all accounts, to be more viable than clashing. At the beginning of Islamic banking, traditional banks didn't consider the premium free framework to be feasible. Over the long haul, as Islamic banking developed around the world, the two kinds of banks due to legitimate need started to help out one another.

The two kinds of banks are working corresponding to one another in homegrown just as worldwide monetary tasks; participating in correspondence administrations affirming, prompting and arranging LCs; keeping reserves and getting assets to and from traditional banks without revenue; additionally trading data or cooperating as accomplices identified with retail and corporate customers, just as in different undertakings.

Similitudes Between Conventional and Islamic Banks According to the CISI (2015) exercise manual Fundamentals of Islamic Banking and Finance, the likenesses among ordinary and Islamic banks are as per the following.

1. Both are business elements authorized by the national bank, engaged with gathering stores from the excess units in the public arena and applying the assets to borrowers, business people or deficiency units.
2. Both sorts of banks offer current records for the supervision of assets, installment offices, check books, charge cards and with no premium or benefit.
3. In fixed stores of ordinary banks and speculation records of Islamic banks the clients consent to store their assets for a fixed period, however the get back with regular banks is a fixed revenue while for Islamic banks it is a supportive of rata share in the benefit.
4. Both kinds of banks utilize the interbank market for liquidity the executives.Conventional and islamic financial intermediations.

The differences between conventional and islamic banking

Risk taking

- Conventional banks- Works dependent on hazard move from the investors and the bank to the borrowers or business people
- Islamic banks- The essential pay of the bank is the fixed revenue acquired from the obligation financing it gives, isolated from the genuine economy.

Economic versus social focus

- Focuses on financial prosperity and benefit augmentation standards.

- Local area situated, empowering business venture, advancing justness and decency in the public eye, grounded on moral, social and good structure.

Price of money

- Time worth of cash, as in premium, is the cost of cash.
- Cash isn't a ware and has no cost.

Fixed income versus profit and loss sharing

- Investors get a fixed revenue and stores are considered as risk.
- Investors of venture accounts are accomplices of the bank and offer in the benefit and misfortune; these records have qualities of both obligation and value.

Deposit guarantee

- All stores are ensured.
- Stores put in current records are ensured as it were.

Income

- The essential pay of the bank is the fixed revenue acquired from the obligation financing it gives, isolated from the genuine economy.
- The financing is connected to the genuine area and the arrival of the monetary exchanges emerge from the genuine economy.

Asset link

- Exchanges can be absolutely monetary, with no impulse to connection to genuine resources.
- All monetary exchanges should be either resource based or resource supported, with a trade of labor and products, making the framework much steady.

Size of banks

- A significant number of the worldwide customary banks are of extremely enormous size.
- Most Islamic banks are little or medium measured.

Bank-client relationship

- The bank–customer relationship is that of leaser and borrower.

- Relies upon the kind of agreement, could be of accomplices, head and specialist, financial backer and administrator, purchaser and dealer, lessor and resident.

A traditional bank gathers stores from clients, generally temporarily, pays them a fixed loan fee and afterward loans this cash to different clients who are borrowers, for the most part in the medium or long haul, and charges them a financing cost which is normally higher than that paid to contributors. This distinction between premium charged and premium paid is the bank's spread or benefit. During the time spent monetary intermediation banks are taking liquidity hazard, since they are answerable for returning contributors' supports when they request, while they can't remember the advances they give before development. They likewise assume praise hazards, the danger of borrowers defaulting on reimbursements. The benefit made by the bank is considered as pay for facing these challenges.

Monetary intermediation in Islamic banks has a principal contrast from that in traditional banks. As examined before, in Islam cash is a mechanism of trade and not an item, so cash can't be brought in from cash. Thusly, the traditional monetary intermediation interaction of changing stores into advances and procuring revenue or Riba from them is restricted and the legitimization for bearing credit and liquidity hazard to acquire the interest edge isn't adequate. In Islamic monetary intermediation interest is supplanted with benefit and misfortune sharing. Rather than the charge credit structure Islamic banks utilize the Mudaraba idea. In Mudaraba the capital is totally given by one gathering, the Rab al Maal, while the business is overseen by the other party, the Mudarib. In Islamic monetary intermediation, the Islamic bank executes a Mudaraba contract with the investors, where the contributors are the Rab al Maal while the bank goes about as Mudarib or business visionary. Then again, the Islamic bank enters a second Mudaraba contract with the clients of the assets, the borrowers or business people. In this Mudaraba the bank goes about as the Rab al Maal and the asset client is the Mudarib. This is known as the two-level Mudaraba of Islamic monetary intermediation. In the two levels of the Mudaraba contract, benefit is partaken in a pre-concurred proportion, while the monetary misfortune is borne exclusively by the Rab al Maal; the Mudarib is at risk just to lose their time and exertion. If there should be an occurrence of benefit estimation in Islamic monetary intermediation, all operational costs are deducted from the bank pay to infer the overall gain or benefit. From this the Mudarib, or bank's, benefit share is deducted, and the equilibrium sum is appropriated on a supportive of rata premise among the investors. Islamic banks ordinarily apply distinctive benefit sharing proportions to various sorts of stores.

According to Shariah necessities, the cash loaned by Islamic banks should be applied to genuine resources, usufruct or administrations. Efficiency and business venture as measures to develop the economy are accentuated in Islam. Islamic banks give financing twoly. Initially, as resource sponsored financing, where all exchanges have a fundamental resource, venture or administration and these are deals, exchanging, rent, speculation or charge based agreements. Also, as cooperation account, where the bank turns into an accomplice in the agreement and offers in the danger and return. This should be possible as a Mudaraba contract, one gathering giving the whole capital and the other giving exertion and ability. It can likewise be executed as a Musharaka contract, where all gatherings add to the capital and all or some are associated with dealing with the business with their work and skills.In the two agreements, benefit is partaken in a pre-concurred proportion while misfortunes according to the capital commitment. In Islamic banking the attention is more on the reliability and capacities of the borrower instead of the financial soundness or monetary worth of the borrower and the insurance gave. Islamic banks should be judicious in choosing undertakings to fund and are needed to oversee and screen considerably more intently, since they don't charge a fixed revenue but instead share in the benefit and loss of these tasks.

The Mudaraba idea is utilized to structure both interest stores (current and bank accounts) and time or fixed stores. Request stores can be removed on request and the benefit for them is determined dependent on the equilibrium kept up in the record at standard stretches, frequently every quarter. Time stores, which are called venture accounts in Islamic banks, require the responsibility of the store for indicated periods (for example 3, 6, 9, a year). On the off chance that the store is removed early, the chief is returned, yet no benefit or just piece of the benefit is paid. There are two sorts of speculation accounts: general venture account, where the contributor gives the bank total duty to contribute their assets as the bank sees fit and consents to a standard benefit sharing proportion; explicit speculation account, where the client indicates a few conditions identified with where their store can be contributed and acknowledges an arranged benefit sharing proportion. The stored sum in the speculation account doesn't have a capital assurance from the bank and hypothetically, in the event of misfortune, investors may lose their store. The pace of return isn't fixed ahead of time, rather the verifiable paces of return are given as a sign. Toward the finish of the venture time frame the genuine pace of return is determined and appropriated; this rate might contrast from the characteristic rate. The stores of clients in Islamic banks, along these lines, are not danger free, and as such they have value like qualities.

To assist the contributors and to remain serious, Islamic banks take a few measures to smooth the pay gave to investors. During times of high benefit, banks keep to the side a bit of the benefit in a hold store and during times of low benefit, they add to the benefit from the save reserve. There are issues identified with such pay smoothing and hold reserves. The venture account holders may not know about, or have any impact over, the pay smoothing measure and may have doubt identified with it. To manage such issues, venture account holders ought to be educated about the pay smoothing measure and their assent ought to be taken. Additionally, the change technique ought to be straightforward and apply standard rules as determined by the administrative authority of the purview. The Islamic standard setting body, AAOIFI, to be talked about in more detail later in this section, permits the Islamic banks to have two sorts of stores.

1. Benefit balance hold. During long periods of high benefit a predetermined sum is moved to the hold to make up for quite a long time of low benefit. This sum is moved from the benefit before any benefit is disseminated to the unlimited speculation account holders or investors.

2. Speculation hazard save. A sum is moved to this save after the bank has taken out its pay as Mudarib, the equilibrium of the benefit being circulated to the unhindered venture account holder.

In Mudaraba-based Islamic monetary intermediation the Rab al Maal has no capital assurance and may lose their capital in case of a misfortune. Despite the fact that Islamic banks can't straightforwardly give any assurance to the speculation account holders as Rab al Maal, it is normal for venture records to have an outsider circuitous assurance either from the public authority through the national bank or from a store protection or Takaful plan. This type of aberrant assurance is a subject of discussion. Contentions against such certifications are that Mudaraba addresses hazard capital and ought to have value like attributes, and such assurances are not Shariah consistent and may make the benefit like Riba. Additionally, when such certifications are furnished on the bank's obligation side with no such assurance on the bank's resource side, it might make a confound in the danger profile influencing the plan of the two-level Mudaraba. Allies of such ensures feature the solace of venture account holders and the minimization of social expenses in the event of enormous misfortunes at the bank and to urge contributors to acknowledge Mudaraba-based speculation accounts rather than interestbased fixed stores. Moreover, the capital sufficiency necessities of the Islamic banks give an aberrant assurance and once in a while the banks as Mudarib give a semi assurance to investors' funds.Islamic monetary intermediation has three distinctive models (Iqbal Z. and Mirakhor A., 2015).

These are discussed below :

Two-Tier Mudaraba

This model incorporates two levels of Mudaraba. The principal level is on the risk side of the bank's accounting report. Contributors and financial backers go into a Mudaraba contract with the bank, giving assets as Rab al Maal, and the bank is the

Mudarib dealing with the utilization of these assets. The contributors share in the benefit procured by the bank at a foreordained proportion. In the event that there are any monetary misfortunes, investors bear it as capital suppliers, the bank just loses its work.

The subsequent level is on the resource side of the bank's accounting report. In this Mudaraba the bank goes about as the provider of assets, Rab al Maal, to business people or borrowers, who are the Mudarib. The benefits are shared at a pre -concurred proportion. Any monetary misfortunes are borne by the bank, while the Mudarib lose their work. Banks pool all the store, and give subsidizing to different activities. The pay or misfortunes from these assortment of ventures are additionally pooled together, and the consolidated benefit is divided among investors and the bank at the pre-concurred proportion.

The resource and risk sides of the bank are completely incorporated, which diminishes the requirement for dynamic resource obligation the board, making the model steady and ready to manage financial stuns. This model does exclude a particular hold necessity on one or the other side of the accounting report.

Two-Windows Model

This model is practically equivalent to the two-level model, the solitary distinction being that it has a hold prerequisite. The model partitions the obligation side of the bank's accounting report into two windows, one for request stores and the other for venture stores. It requires 100% save for request stores as these are set with the bank as Amanah for supervision as it were. The bank may charge a help expense for these records. No hold is needed for venture stores as these are set for speculation purposes and bear the danger of misfortune.

Wakala Model

In this model the bank goes about as a specialist or Wakil, liable for dealing with contributors' assets and charging them a fixed expense. Different terms and states of the Wakala contract are commonly concurred between the bank and the investors.

2.2 Islamic and conventional banking: risks and opportunities

Risk Exposure In Islamic Banking

The hazard that Islamic banks face can be separated into monetary and non-monetary dangers. Monetary dangers by and large incorporate credit, market and liquidity hazard. The non-monetary dangers incorporate operational danger, administrative danger, business hazard, legitimate danger, vital danger and Shari'ah hazard. The danger qualities of Islamic banking vary from traditional banking.The hazard's Shari'ah credits as monetary resources, or non-monetary resources, land, products or work in measure inventories (Ijarah, Salam or Istisna') or their outcomes from financing made on benefit sharing premise are presented to misfortunes (Mudarabah and Musyarakah). Understanding the meaning of hazard the executives, the Islamic Financial Services Board (IFSB) gave an extensive norms report on hazard the board in December 2005 that distinguishes various dangers and gives core values of hazard the board for Islamic monetary establishments. This examination is an endeavor to comprehend three most basic types of dangers that Islamic banks are presented to be specific, credit hazard, operational danger and Shari'ah hazard.

Credit risk

Acknowledge hazard is known as the potential danger credited to postponed, conceded and default in installments by counterparties. It covers benefit sharing agreements (Mudarabah and Musharakah), receivables and rent (Murabahah, Diminishing Musharakah and Ijarah) and working capital financing (Salam, Istisna' and Mudarabah). The procedures utilized by Islamic banks to relieve hazard are like regular banks.

The significance of credit hazard the executives gets basic on account of Islamic monetary foundations where loaning is supplanted with ventures and organization.

On account of Mudarabah speculations, Islamic bank as a Rabbul–mal (head) is presented to an upgraded credit hazard on the sums progressed to the mudarib (specialist), notwithstanding the average head specialist issues. The bank isn't in the situation to know and choose how the exercises of mudarib can be checked precisely, particularly if cases of misfortunes are made, since the idea of the Mudarabah contract doesn't give the bank proper rights to screen the mudarib or to take an interest in the administration of the venture. Subsequently, it makes the appraisal and the board of credit hazard troublesome and the danger particularly present in business sectors where data unevenness is high and there is absence of straightforwardness in monetary revelation by the mudarib (Malim N.A.K., 2015).

In Murabahah exchanges, Islamic banks are presented to credit chances when the bank has conveyed the resource for the customer however it doesn't get installment from the customer on schedule. Besides, in Salam and Istisna' gets, the bank is presented to the danger of inability to supply merchandise on schedule or to supply by any means, or inability to hold fast to the nature of products as authoritatively indicated. Such disappointment can open Islamic banks to monetary misfortunes of pay just as capital. The Islamic banks are presented to the danger of losing whole put capital in Musharakah, since such capital may not be recuperated as it positions lower than obligation instruments upon liquidation (Akkizidis I.S. and Khandelwal S.K., 2008).

Operational risk

Operational danger has been accepting progressively consideration as the pattern toward more noteworthy reliance on innovation, more prominent rivalry among banks and globalization have left the financial business more presented to operational dangers now than any other time. The operational danger is characterized as the danger of misfortune coming about because of insufficiency or disappointment of interior cycles, as identified with individuals and frameworks or from outer dangers and incorporates the danger of disappointment of innovation, frameworks and insightful models.

Operational hazards are probably going to be huge on account of Islamic banks because of their particular authoritative highlights and the overall lawful climate. Explicit parts of Islamic financial that could bring the operational dangers up in Islamic banks incorporate the accompanying: disappointment of the interior control frameworks to identify and mange expected issues in the operational cycles and administrative center capacities, troubles in upholding Islamic agreements in a more extensive lawful climate, need to keep up and oversee product inventories frequently in illiquid advertises and implying expenses and dangers in checking value type contracts and the related legitimate dangers. Likewise, individuals hazard is another kind of operational danger emerging from inadequacy or misrepresentation that opens Islamic banks to possible misfortunes. Operational danger is viewed as high danger openings for Islamic banks. The resource based nature of financing items in Islamic banking like Murabahah, Salam, Istisna' may lead to types of operational danger in agreement drafting and execution that are explicit to such items (Archer S. and Abdullah H., 2007).

Shari'ah Risk

Shari'ah hazard is identified with the design and working of the Shari'ah sheets at the institutional and foundational level. This danger comprises of two sorts; the first is because of nonstandard practices in regard of various agreements in various wards and second is because of inability to follow Shari'ah rules. Distinctive selection of Shari'ah rules brings about contrasts in monetary revealing, evaluating and bookkeeping treatment by Islamic banks. For instance, some Shari'ah researchers consider the details of a Murabahah agreement to be restricting on the purchaser, others contend that the purchaser has the choice to decay even in the wake of submitting a request and paying the responsibility expense. While each training is worthy by various ways of thinking, the bank's danger is higher in non-restricting cases and it might prompt potential suit issues in the event of disrupted exchanges. Banks are presented to the danger of resistance with the Shari'ah rules and standards dictated by the Shari'ah board or the important body in the locale. The idea of connection between the bank and financial backers/contributors isn't just of a specialist and head, yet it is likewise founded on verifiable trust to completely conform to the Shari'ah where this relationship recognizes Islamic banking from traditional. In the event that where the bank can't keep up this trust and the bank's activities lead to resistance with the Shari'ah, the bank is presented to the danger of breaking the certainty of the financial backers/investors. Penetrating the trust and certainty of the contributors/financial backers will prompt genuine results, including the withdrawal and indebtedness hazard. Somewhat, a couple of Shari'ah researchers have proposed that if a bank neglects to act as per Shari'ah rules, the exchange ought to be viewed as invalid and void and any pay got from it ought not be remembered for the benefits to be circulated to the financial backers/investors. (Iqbal Z. and Mirakhor A., 2007).

Issues And Challenges

Hazard the executives is broadly evolved in the customary monetary market structures. In any case, it is immature in the Islamic monetary business sectors because of restricted assets, significant expense and absence of innovative plots to evaluate and screen hazard on schedule. Islamic banks face vital difficulties in improving their danger the board techniques as they are presented to different sorts of dangers.

Regular danger the executives methods and apparatuses depend on interest, betting and hypothesis, which are disallowed by Shari'ah. Islamic money is woefully missing on item expansiveness, profundity and refinement. There are still just not many riskhedging instruments and procedures in Islamic money in spite of its quick development. Various danger the board methods are not accessible because of prerequisites for Shari'ah consistence. Specifically, these are credit subsidiaries, trades, subordinates for market hazard the executives and currency market instruments (Syed Ali S., 2008).Thus, the advancement of prudential guidelines and frameworks identified with hazard the executives, capital ampleness and corporate administration of Islamic banking is even more appropriate.

Monetary designing is another operational test for Islamic banks, which requests normalization of the way toward presenting new items on the lookout. An Islamic bank at present has its own Shari'ah board looking at and assessing each new item, without having facilitated endeavors with different banks. This cycle ought to be smoothed out and normalized to limit time, exertion, cost and disarray. Cross boundary examination of Islamic financial exhibitions is troublesome in light of the fact that the administrative structures of Islamic financial locales are not normalized and remain exceptionally different, going from structures that advance double banking, for example, in Malaysia to structures that solitary perceived Islamic financial framework, for example, in Iran.

Islamic banks may have higher operational danger; more prominent number of agreements, more current supporting framework, developing ranges of abilities and absence of consistency of best practice. Islamic banking is seen to be more presented to operational dangers related with the disappointment of controls, strategies, data innovation frameworks and scientific models. Operational danger goes past the numerical models and capital ampleness; a social change in the association with respect to the operational danger is required to create sound operational danger the board rehearses (Akkizidis I.S. and Kumar S.K, 2008).

All financial organizations face chances because of the delegate administrations they offer in the getting and financing of the assets. Islamic banking seems to utilize similar principles for financing as utilized by customary banking, yet they significantly contrast as far as their application. Hazard taking in Islamic financial contrasts from ordinary banking as the danger and benefits are divided among the banks' proprietors and contributors, while in customary banking the value financial backers face the complete challenge. Generally, Islamic banks don't punish their contributors for the misfortunes and it is borne by the value holders however an instrument exists inside the framework which can decrease the danger to the proprietors of the bank. Because of this benefit and hazard sharing design Islamic banking has customarily positioned a more noteworthy accentuation on the reasonability and assessment of the undertakings they account.

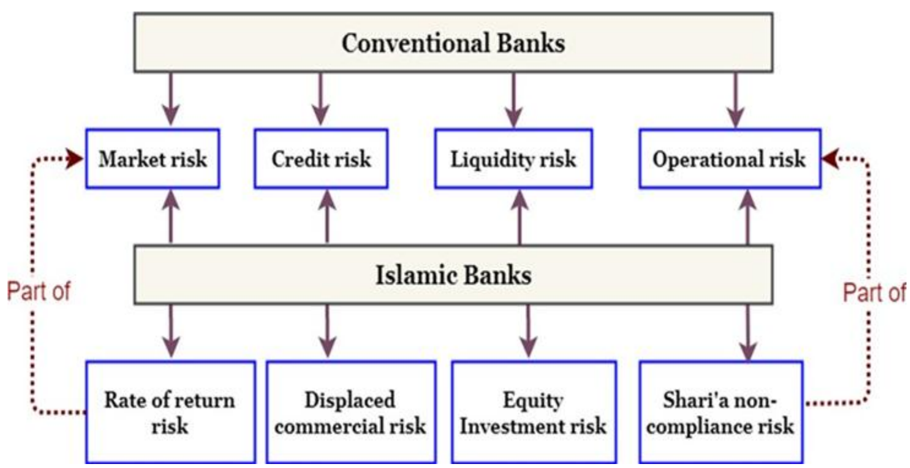
The establishment of Islamic financial lies in investment and not in basic monetary intermediation. The scope of dangers might be viewed as more prominent in Islamic banking because of their interest as an accomplice, financial backer, purchaser and merchant, when contrasted with the situation with moneylender in regular banking.

While they share significant dangers like credit, market, operational, focus and liquidity hazards, Islamic banking additionally faces value venture hazard, edge hazard, dislodged business hazard, pace of return hazard and Sharia resistance hazard.

Islamic banks utilize comparative methods as conventional banks in overseeing credit hazard alleviation of the financing proposition, through strategies like resource guarantee, observing of venture or resource movement and the expansion of credit openness through different industry and sectorial cutoff points. The administration of market hazard, and operational danger, is likewise comparative in the two frameworks. While these significant danger classes are managed in comparable manners there are special dangers to Islamic banking.

In theory, Islamic banks are presented to two sorts of hazard: those looked by ordinary banks and dangers that are explicit to Islamic banks.Figure 4 schematizes these risks and features:

Figure 4: Risks faced by Islamic banks in theory.



Source: Islamic Banking and Risk Management: Issues and Challenges, 2015.

There are hazards regular to both ordinary and Islamic banks, specifically:

- **Credit hazard:** The danger that a counterparty won't meet its commitments as per the settled upon terms (Helmy M., 2012);
- **Liquidity hazard:** The bank's potential misfortune coming about because of its failure to finance a commitment on schedule without causing unsatisfactory misfortunes. This danger is additionally natural in customary intermediation exercises. In general, a bank that can't adapt to enormous and unforeseen interest for cash withdrawals from its clients or other credit establishments is called illiquid (De Coussergués and Bourd eaux, 2010)
- **Market hazard:** This danger emerges from a troublesome change in the cost of a resource that is by and large exchanged available (De Coussergués and Bourdeaux, 2010). Market hazards incorporate financing cost hazard, unfamiliar trade rates hazard, ware value hazard and value hazard. These dangers emerge from the likelihood of misfortune because of the antagonistic developments of the accompanying components (Jouaber-Snoussi, 2012).

- **Interest rate hazard:** While this danger is major in traditional banks, it assumes an alternate part in Islamic banks. Since Islam forbids revenue, Islamic banking is hypothetically prohibited from openness to this danger. Truly, the loan fee hazard just takes an alternate structure on the grounds that, regardless of whether financing cost isn't utilized by Islamic banks, they actually use it as a source of perspective for characterizing their edges. This training is known as the pace of return hazard, which is a danger that is explicit to Islamic banks;
- **Foreign trade hazard:** This danger shows itself when a part of a bank's pay or resources and liabilities are designated in unfamiliar monetary forms. All Islamic financial agreements, are possibly exposable to changes in return rates whenever designated;
- **Equity value hazard:** This danger concerns the market valuation of the bank's resources. A misfortune could be recorded by the bank if the worth of its speculations decays;

- **Commodity value hazard:** This danger influences the worth and monetary progressions of items.
- **Operational hazard:** This danger is characterized as the danger of misfortune coming about because of lacking or bombed inward cycles, individuals, frameworks or outer occasions. This danger incorporates misfortunes coming about because of rebelliousness with the Shari'a and inability to satisfy trustee duties (Rhanoui S. and Belkhoutout K., 2018)

The IFSB, enhanced by contemporary principle, presents the conceivable operational dangers for Islamic banks, as accordingly appeared by Table 2. These risks are in addition to the Shari'a resistance hazard that is explicit to Islamic banking.

Table 2: Operational risk aspects in Islamic banks excluding Shari'a non-compliance risk

Risk of external events	Hazard of misfortune brought about by outer occurrences and different causes outside the ability to control of the Islamic bank.
People risk	Hazard produced by workers from purposeful and unexpected occasions, that can make impressive harm the Islamic bank.
Technological risk	Hazard of the powerlessness to follow the high level utilization of data innovation (IT) that could make an Islamic bank fundamentally lose in seriousness.
Fiduciary risk	Hazard of misfortune emerging from the Islamic bank's carelessness, flaw or infringement of their speculation command.
Legal risk	Hazard of misfortune emerging from legitimate issue. For example, the Islamic bank or its representatives may submit acts that disregard the law and in this way bring about authorizations to which the bank should submit. Another model is the point at which the Islamic bank is engaged with a legal dispute because of error of then laws and guidelines in power.
Reputational risk	Hazard of misfortune emerging from a negative view of the Islamic bank's standing because of its strategic approaches or direct, which may ominously impact its activities, benefit or investor esteem.

Source: Operational Risk in Both Conventional and Islamic Banking Perceptions: Differences and Similarities, 2018.

The risks explicit to Islamic banks are as per the following:

Shari'a non-compliance hazard: The danger that emerges from neglecting to consent to Shari'a rules and standards as controlled by the Shari'a leading body of the bank (Lahsasna A., 2014);

Rate of return hazard: This danger is firmly connected to the pace of return gave to venture account holders, who are otherwise called contributors in Islamic banks. These contributors will be frustrated in the event that they get, returns on their stores that are lower than the market rate (Salem R.A., 2013). The pace of return hazard thusly compares with an unfavorable change in the financial backer's assumptions about a venture's pace of return;

Displaced business hazard: This danger is a result of the pace of return hazard in Islamic banks and shows itself at whatever point the bank gets itself unfit to pay serious paces of return (Kasri R., 2007). This outcome is probably going to urge contributors to pull out their assets. Subsequently, to hold its financing suppliers and deter financial backers from pulling out, the Islamic bank would give up all or part of its benefits to help the investors;

Equity speculation hazard: This danger emerges from going into an organization to embrace or taking an interest in a financing or general business movement as depicted in the agreement (Helmy M., 2012). Value venture hazard is clear in Mudaraba and Musharaka contracts.

CHAPTER III THE ROLE OF THE ISLAMIC BANKING IN THE WORLD.

3.1 Development and analysis of Islamic banking system in different countries

In modern times, the concept of Islamic economy and Islamic banking system began to be pronounced after 1945, when the independence movement began in India. Scientific, political and economic discussions on how Indian Muslim intellectuals will use the rules of Islam in the formation of a new system during the movement and at the beginning of independence.During their time, the concept of "Islamic Economics" entered the modern literature (Meybullayev M., 2004).

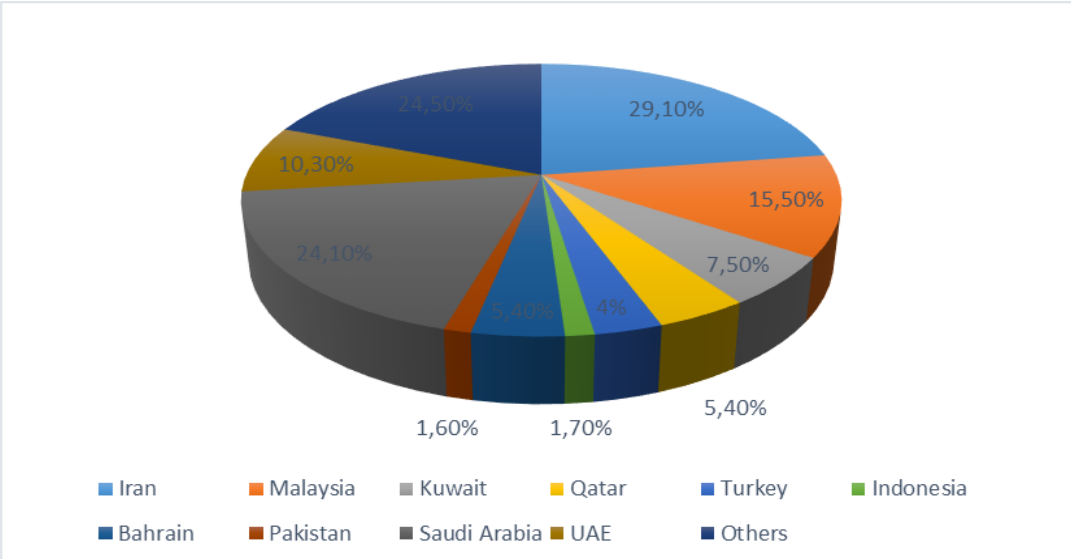
In the following period, the collapse of colonial systems, the gaining of independence of Islamic countries, the increase in oil revenues also led to the development of renaissance and development tendencies in Islamic countries.As a result of these trends, the Islamic Development Bank was established in 1975 to promote productive investment in Islamic countries, provide technical and economic support in the economic and social spheres, and promote and develop foreign trade between member countries.

Provide financial support to the Islamic Development Bank in private sector projects Dar Al-Maal Al-Islami Holding was established in Geneva in 1981 as a result of the organization of businessmen from Saudi Arabia, Kuwait and the United Arab Emirates.(Türkiye Katılım Bankaları Birliği, 2015)

In the years that followed, similar organizations intensified their activities in this direction.

Of the Islamic countries, Iran and Sudan have adopted a completely interest-free financial system. On the other hand, there are countries such as Bahrain, Indonesia, Malaysia, Pakistan or the United Arab Emirates (UAE) where traditional banking and interest-free financial institutions operate together.Along with these countries, in recent years, Islamic banking institutions have begun to offer their products in countries such as the United Kingdom, the United States and Switzerland, and have attracted a significant number of customers. (Türkiye Katılım Bankaları Birliği,2007)

Figure 5: Countries' Shares in Interest-Free Banking Size



Source: Türkiye Katılım Bankacılığı Stratejik Belgesi 2015-2025

It will be seen that the number of banks in the countries where graph 1 and graph 2 are examined above and the shares of countries in the volume of asset size are not parallel. Malaysia, which has the highest number of banks, ranks 3rd in the asset size ranking, followed by Indonesia, Bahrain and Iran in the bank rankings. Ranked last in terms of the number of banks Turkey ranks 8th in the areas of asset size ranking.

Today, Islamic banking institutions operating in more than 58 countries are Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey excels growth and interest-free banking as existing potentials. Interest-free banking has become the mainstream sector with market shares in Saudi Arabia, Kuwait and Bahrain. When the assets of interest-free banks are analyzed, it is seen that the murabaha product is predominantly used in their product portfolios. On the basis of countries, the use of murabaha product is over 50% in all countries operating in the interest-free banking sector except Malaysia, UAE and Pakistan, while the usage rate of murabaha exceeds 90% in Iran and Saudi Arabia, while in England and Bahrain it is it is determined that the rate is above 50%. In Malaysia and UAE, it is seen that the use of leasing is also high in addition to murabahan (Türkiye Katılım Bankaları Birliği, 2007).

Malaysia

Malaysia, which is one of the principal nations to strike a chord with regards to Islamic money, has a populace of 32.6 million as of the finish of 2018. Muslims make up about 60% of the country's population.(Department of Statistics Malaysia, 2019) In the nation managed by Muslim heads, it is unavoidably ensured that individuals from different religions additionally practice their religion unreservedly as a prerequisite of the multi-strict and ethnic design. Notwithstanding, the dedication of both the decision bunch and the Muslim Malay individuals, who are the principle components of the country, to their religion brought about the recognition of Islamic sensitivities in all financial exercises in Malaysia. As an augmentation of this outcome, Malaysia has had its spot among the main nations in the field of Islamic money.

The 2000s are the period when the advancement of the Islamic account industry in Malaysia acquired energy. IFSB was set up with the Islamic Financial Services Law established in 2002, and the foundation was allowed political resistance and advantages that global associations have. Malaysia's facilitating of IFSB has contributed emphatically to both the advancement of the country in Islamic money and banking and its case to turn into a global focus in the field of Islamic account. Around the same time, Malaysian national Bank Negara Malaysia dispatched the Finance Sector Master Plan, which permits unfamiliar organizations to enter the Islamic account area and become accomplices with existing foundations. Because of this arrangement, Bank Negara Malaysia in 2004; It has allowed banking licenses to three support banks beginning in the Middle East, to be specific Kuwait Finance House, Al Rajhi Investment Bank (Saudi Arabia) and Qatar Investment Group . In 2006, Malaysia International Islamic Finance Center (MIFC) was set up to fill the need of Malaysia to get one of the primary worldwide entertainers in the field of Islamic account. MIFC capacities as a middle that unites administrative specialists, applicable services, global monetary establishments and different partners dynamic in the field of Islamic account and makes a typical working stage on the fate of Islamic money and what should be done (Omar, Abduh and Sukmana, 2013).

Malaysia's Islamic money entrance rate has developed consistently throughout the long term and looks on target to arrive at the national bank's objective of 40% portion of complete financing before the finish of 2020, despite the disturbances from the Covid-19 pandemic. Bank Negara Malaysia, in its Financial Sector Blueprint 2011-2020 delivered in December 2011, said it expected financing dependent on Islamic standards to represent 40% of all out financing in 2020, from 29% in 2010.The infiltration rate or Islamic financing, including that of advancement monetary foundations (DFIs), as a level of the whole financial framework's credits/financing remained at 39.9% as at June 30, as indicated by primer information given by Bank Negara in its Financial Stability Review (FSR) for the principal half of 2020. (https://www.theedgemarkets.com/article)

Bahrain

The Kingdom of Bahrain is perceived as a worldwide innovator in Islamic money. It truth be told has the 'most elevated grouping of Islamic account establishments around there'— which assume an essential part in serving the homegrown market, people and exchange and business. In December 2018, there were 382 establishments and 98 retail banks enrolled in the Kingdom's financial area. Right now, there are around six retail Islamic banks in the Kingdom and around 15 discount Islamic banks.

It is eminent that the Kingdom was quick to permit its national bank to issue sukuk. Throughout the long term, the Kingdom has set up itself as a continuous backer of dollar-named and neighborhood money sukuk contributions. So, the Kingdom is broadly known for its complete administrative systems for shariah-agreeable exercises on the planet. For the Kingdom, it is significant that Islamic banks are authorized by the Central Bank of Bahrain and should do three significant capacities. First: The banks should acknowledge shariah cash arrangements or stores. Second: The banks should oversee shariah benefit sharing speculation accounts. Third: The banks should offer shariah financing contracts.

The pandemic joined with draining oil costs and oil value war have changed the viewpoint for the Kingdom's Islamic account industry. In the 10,000 foot view, the worldwide Islamic money industry comes up short on a bunch of norms satisfactory to all partners. In such manner, the United Arab Emirates Ministry of Finance, the Islamic Development Bank, and the Dubai Islamic Economy Development Center (DIEDC) have met up to build up a worldwide administrative system for Islamic money. The point of this system is to speed up development inside the business and diminish inconsistencies worldwide.

S&P said in a report that the worldwide Islamic money industry will get back to moderate development somewhere in the range of 2020 and 2021 after solid execution in 2019. The development will be driven by the dynamic sukuk market in the Kingdom just as the appropriation of new innovation. The business has seen solid development so far over the most recent five years, with the market coming to a $2.4 trillion valuation. Nonetheless, come 2021 and the development will deteriorate. Before the pandemic, the market was ready for one more year of huge development yet the current setting first features the requirement for digitalisation in Quite a while to move future turns of events. (https://internationalfinance.com/ , 2020)

İndonesia

Indonesia is the biggest Muslim lion's share country on the planet with roughly 80% of the populace distinguishing themselves as a feature of the religion. Notwithstanding its apparently segment inclination to be a middle for shariah banking, the area represented only 3.2% of the all out financial resources according to the furthest limit of 2010. While the UK has established its situation as a center for shariah consistent banking in Europe, Malaysia has a lot of drove the path in South East Asia; leaving Indonesia to some degree behind.

The drawn out development possibilities for Indonesia's shariah banking area are positive. An overall change in disposition following the monetary emergency towards more 'moral contributing' has grabbed hold of the country's both Muslim and non-Muslim populace. To exploit the premium in shariah banking from Indonesia as well as from global financial backers, the public authority needs to smooth out the organization to make the area more serious. Developing the limit of HR to have the option to give aptitude to the area and make imaginative items that serve the necessities of the market is another territory where the nation is slacking. Indonesia is discovering its way in the field, hoping to detail its own image of Islamic money instead of simply follow the models of center points like the UK, UAE and Malaysia. What is significant is to guarantee that the important guidelines and system is set up to stay away from the nation being behind.

(http://www.gbgindonesia.com/en/finance/article/2011/indonesia_s_islamic_banking_sector.php)

The portion of the overall industry of Islamic monetary contributes up to 9.03% per April 2020 to the monetary framework in Indonesia. It demonstrates a grade position contrasted with 2019 by about 8%. The all out resource of Islamic account in Indonesia, prohibit Islamic capital is for about IDR 1,496.05 Trillion for each April 2020. The breakdown is as per the following: the Islamic capital market contributes as the greatest supporter of the Islamic monetary resource for about IDR 851.72 Trillion. Followed by Islamic banking and Financial Industry Non-Bank (IKNB) for about IDR 534.86 Trillion and IDR 109.47 Trillion, separately.

It is very fascinating in light of the fact that Islamic banking used to be the greatest supporter of the Islamic capital market. A huge commitment from the Islamic capital market was driven by the public authority who issues Sukuk (Islamic securities). In light of the Islamic bank perspective, the resources are quite low since it is just 6.07%

per April 2020 which comes from 20 Islamic specialty units , 14 Islamic customary banks , and 163 Islamic credit bank (BPR Syariah). The all out resources of Islamic banks are for about IDR 524.86 Trillion for each April 2020. However, it actually shows development from Islamic banking despite the fact that encountering deceleration.(https://finance.binus.ac.id/2020/07/the-growth-of-islamic-finance-in-indonesia-during-the-pandemic/)

Egypt and Turkey

The first interest-free financial institution was established in Egypt. For this reason, Egypt has an important place in the Islamic banking system. As a result of research conducted by Senhuri in Egypt, interest is allowed, provided that it does not exceed a certain ratio. At the same time, interest-free financial institutions and traditional banking activities are carried out jointly. Faisal Bank of Egypt, established in 1977 as a joint venture between Egypt and Saudi Arabia, and the 100% Egyptian International Investment Bank, established in subsequent years, play an important role in the Egyptian banking system and cover 17% of all deposits.(Türkiye Katılım Bankaları Birliği, 2007)

As a result of serious economic reforms since 1980, Turkey has moved to an open market economy. At the same time, the legislation was amended to adapt to international financial markets and to develop an interest-free banking system in Turkey. The legal framework has been improved to ensure the development of an interest-free financial system (Özcan M.E., Hazıroğlu.T, 2000).

Albaraka Turk was the first interest-free financial system in Turkey in 1985. It was established in 1985 in partnership with Faisal Finance and Ulker Group. In 2001-2002, Ulker bought all the shares of the institution and changed its name to Family Finance. In 2005, it merged with the Anatolian Financial Institution and became the Turkish Financial Institution. In addition to this institution, it currently operates in Turkey Kuwait Turk was founded in 1989. Previously operated Institutions such as

Ikhlas Finance and Asia Finance have also existed in recent history (http://serpam.istanbul.edu.tr/wp-content/uploads/2012/09/Islami_Finans)

Iran, Pakistan

The situation with the Islamic banking system in Iran and Pakistan differs from other countries, but they are similar. Thus, according to Article 4 of the Iranian Constitution, all legal regulations must be based on religious standards. The interest-free financial system law passed by the Iranian parliament in 1983 banned all interest-based and interest-based banking instruments and operations. Thus, the interest-free financial system has become mandatory in Iran.

In 1981, all commercial banks in Pakistan opened profit / loss accounts instead of interest-bearing deposit accounts for depositors, as the Pakistani constitution states that all laws on interest payments and withdrawals must not conflict with religious rules.

Saudi Arabia, Kuwait and other Gulf countries

Interest is not allowed in Saudi Arabia, as religious scholars are more radical than in other countries. Only banks can charge a commission for their services. The establishment of the Islamic Development Bank in Jeddah in 1975 was led by the government of Saudi Arabia. In addition, the strongest financial institutions in this area are of Saudi Arabian origin. Thus, Dar Al-Maal Al Islami Group, Dallah Al Baraka Group and Al Rajhi Banking and Investment Company are the 3 strongest and most effective private financial institutions in this field.

Although Kuwait is a small country in terms of population, it ranks third after Bahrain and the UAE. The first interest-free financial institution in the country is the Kuwaiti House of Finance. It operates in the investment, banking and public sectors. In 1992, the International Investment Bank was established to provide consulting and corporate financial services.

USA, England and China

Recently, interest-free finance is a small but growing sector in the United States. This type of financing is mainly used in the United States to finance the purchase of housing. University Islamic Financial, Devon Bank, American Finance House, HSBC financial institutions provide housing loans in accordance with Islamic rules, and financial intermediaries Fannie Mac and Freddie Mac also draw up mortgage agreements in accordance with Islamic rules, which is a manifestation of growing interest in interest-free financing in the country.

In addition, international financial intermediaries provide interest-free financial services in the United States, and Muslim investors in the Gulf invest in the United States to diversify their financial portfolios. At the same time, US-based companies use Islamic banking resources. It is interesting to note that in 2009 General Electric became the first company to sell Islamic bonds. Observations of such activities in the United States indicate that interest-free financing is developing in the country and interest-free financial institutions are of great interest (Katılım Bankaları, 2012).

An interest-free AUB-UK Address in the UK since 1997 mortgage loans are issued. Here, the fact that the apartment was bought and sold twice (the financial institution buys the apartment and sells the apartment to its client) led to a double taxation and increased costs.

It is noteworthy that the Bank of England in 2004 abolished double taxation by making appropriate changes in the legislation. This innovation has led to the further development of interest-free financing and increased the interest of financial institutions in this area. Founded in 2002, the Islamic House of Britain is the first interest-free financial institution to operate independently and offer interest-free financing products to its clients (Katılım Bankaları, 2012).

The Chinese people have an important place in the world economy Interest-free financing activities have also been launched in the Republic. Thus, the Malaysian Bank of Malaysia, an interest-free financial institution, has been launched. In addition, Hong Kong, the financial center, has infrastructure work in this area, and development in the city is of great importance (Türkiye Katılım Bankaları Birliği, 2007).

3.2. Prospects and development problems of Islamic banking system in the territory of the Republic of Azerbaijan

In general, Islamic banking is not widely developed in the CIS countries, due to the advantages of economic agents formed throughout history, as well as the lack of information about the Islamic financial system by customers, bankers and government agencies. One of the reasons hindering the development of Islamic banking in the CIS is the inconsistency of Islamic banking principles with national legislation. At the same time, many CIS countries are members of the Islamic Development Bank - Azerbaijan, Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan.

The Azerbaijani economy continues to undergo radical changes: deep and necessary reforms have taken place in all aspects of modern financial and credit policy, from macro and micro economic management systems. Issues such as the modern banking system of the Republic of Azerbaijan and its management, organization and use of bank resources, bank management and marketing are of particular relevance today.

A number of reputable banks in Azerbaijan effectively cooperate with many international financial institutions. These institutions include the International Monetary Fund, the European Bank for Reconstruction and Development, the Islamic Development Bank and others.The Islamic Development Bank, of which Azerbaijan is a member, has been closely involved in the implementation of a number of important projects in the Republic of Azerbaijan and continues to do so.

The Islamic Development Bank(IDB), as well as financial institutions regulating their activities in accordance with Islamic rules, also effectively cooperate with a number of reputable and reliable banks in Azerbaijan within the credit lines aimed at the development of the non-oil sector in our country.

Cooperation between the IDB and the Republic of Azerbaijan began in 1992.In 2007, he was appointed the Bank's Local Representative in Azerbaijan.The Islamic Development Bank has invested $ 1 billion in the country's economy, including a total of 18 projects. 14 of these projects, covering energy, agriculture, transport, water supply and social spheres, have been completed, and the implementation of 4 projects is nearing completion. As a result of successful cooperation, the Caspian International Investment Company was established in 2007 together with the Azerbaijan Investment Company.

The projects financed by the Islamic Development Bank in Azerbaijan are summarized below:

Table 3:Projects financed by the Islamic Development Bank in Azerbaijan

1.	"Rural areas in Azerbaijan complex development "project	Beneficiary: Agriculture Ministry-Term: 2011-2018.
2.	Flood control measures in Nakhchivan, modernization of irrigated areas and an expansion project	Beneficiary: Nakhchivan AR State Amelioration and Water Resources Committee Duration: 2012-2016.

Source: (https://www.economy.gov.az/İslam İnkişaf Bankı ilə davam edən layihələr)

In his speech at the opening ceremony of the 35th annual meeting of the Islamic Development Bank, President Ilham Aliyev noted that relations between the Islamic Development Bank and Azerbaijan are developing successfully and rapidly.The President also stressed the following: There are significant prospects for cooperation between the IDB and our country. The period of sustainable development continues in our country, and projects implemented with IDB funding are yielding positive results. In order to ensure the comprehensive development of our republic, the government has set a goal to continue economic reforms in the future. The President noted that the cooperation between the IDB and our country was successful and that they were very pleased with this success, and that equal and mutual efforts would be made to further develop this cooperation in the future (http://president.az/articles/İslam İnkişaf Bankı qrupunun 35-ci illik toplantısının açılış).

The Islamic Development Bank continues to support Azerbaijani commercial banks within the framework of the Islamic banking system. So far, 7 Azerbaijani banks (Turanbank, International Bank of Azerbaijan, Rabitabank, Unibank, Bank Standard, Kovsarbank, Amrahbank) had benefited from this support.

The International Bank of Azerbaijan

The International Bank of Azerbaijan - in August 2012, officially announced the opening of the structure of Islamic banking in the International Bank of Azerbaijan. The bank primarily provides financing for small and medium-sized businesses, corporate customer and retail services, car and real estate financing, credit cards and consumer finance. Particular attention will be paid to international activities, in particular, to attracting investments to Azerbaijan and financing export operations in order to increase Azerbaijani exports in international markets.

The Kauthar Bank

Kauthar Bank was one of the main business banks in Azerbaijan. Kovsar Bank OJSC had been working in the Azerbaijani financial area since 1988. The past name of the bank was "General Bank".

It is the main bank in Azerbaijan and the second bank in CIS nations that works as per the Islam banking framework. The guideline capital of bank is 12.02 million manatas, shares comprise of 50100 ordinal and advantage shares.

The resources of the bank has expanded from 320 thousand manats to 21.8 million manats during most recent 7 years. The permit of the bank gave a chance it to utilize a wide range of bank administrations applied in the act of the world banking. It was served to state organizations,the physical and juridical people who work in a private area. Bank additionally dealt with expanding of the sorts of bank administration and improving their quality. On December 1, 2010, by the choice of the Executive Board of the ECB, "Kauthar Bank" JSC had been denied permit for completing banking operations.The primary purposes behind disavowing the permit were the bank's rebelliousness with the base total capital necessities, infringement of the prerequisites of banking enactment, just as the inability to direct administration and current exercises in a dependable and reasonable way.

Rabita Bank

Rabitabank OJSC and Islamic Corporation for Development (ICD) signed a new loan agreement in the amount of $ 1 million . The first year of the new credit line was a grace period will be 6 years aimed at financing small and medium enterprises in the country. Thus, the total amount of credit allocated to the bank by the Islamic Development Corporation (ICD) volume of 2.1 mln. Dollars (Məmmədov Z., 2017).

TuranBank

Turan Bank has been in fruitful negotiations with the Development Bank Group since 2006. In 2008, small and medium enterprises received 1 million manat with a 6-year, 1-year grace period based on Islamic criteria. Received a line of financing in the amount of USD. At present, as a result of successful cooperation, the total financing line between TuranBank and the IDB group is 8.8 million. It is in the amount of USD.

Currently, the Bank offers funds raised through both institutions to small and medium enterprises within the framework of Islamic Banking. At the same time, the Bank plans to create an Islamic Banking window by 2015 in accordance with its Strategic Plan, which will create conditions for the application of Islamic Banking not only to small and medium enterprises, but also in the retail sector.

Murabaha and Leasing (Financial Leasing) products, which are considered to be the Bank's Islamic Banking products, are provided to Small and Medium Business entities in two directions.

1. Financing of long-term investment-oriented projects
2. Financing of short-term trade operations.

Financing of long-term investment-oriented projects mainly covers a period of 5 years and provides a discount of up to 1 year to the client. Financing of short-term trade operations covers a period of 1 year.

Nikoil Bank

And also for the first time in Azerbaijan, Nikoilbank has started offering Islamic banking products to its customers. Nikoilbank's Islamic banking services cover deposit services. This type of service they offer to customers is actually regulated on two grounds. One of them is based on the Law on Banks, as well as other legal acts. The first product they put on the market fully meets both the requirements of the law and the rules of Sharia. There are two types of banking products, active and passive: One is a deposit - funds raised from people, the other is loans offered to people. Nikoilbank has already created jurisprudence products from the passive side. The other is currently being worked on. That is, it is a non-profit account, halal, but also profitable. It is currently being developed on a profitable account.

Additionally Nikoilbank launched the Islamic banking product "Wadi ad Damana".“Wadi ad Damana ” means "guaranteed protection" in Arabic.

That is, after people place money, people are offered a contract format that is both in accordance with the law and not against the law. People will also benefit there. After a certain period of time, the bank will conduct a certain trade operation and transfer its income to the customer.

Currently, the financial instruments used by the bank in the field of Islamic banking include "Murabaha", "2-stage Murabaha" and "Lease" (Məmmədov Z.,2017).

After regaining our state independence in 1991, our country, as in all spheres, began to form its own independent rights and pursue a sovereign policy in the economic sphere. In the first years of independence, economic and political instability, war conditions led to the further collapse of the country's economy, economic reforms could not be carried out, and the financial situation of the population worsened.

After the national leader of the Azerbaijani people Heydar Aliyev came to power, as a result of his far-sighted policy and fruitful activity, under difficult conditions, great achievements have been made in the field of socio-economic development and integration into the modern international economic system. During this period, under the leadership of the national leader, the market was transferred to a free market economy, the privatization process was completed and integrated into the modern international economic system (http://www.azerbaijan.az/portal/Economy/Azərbaycan iqtisadiyyati haqqinda ümumi məlumat).

In the financial system, which is an important factor of modern economic systems, savings and investment decisions made by various institutions in the economy are effectively regulated in terms of time, quantity and quality, and these decisions are developed in harmony with each other. Thus, in the financial market, resources are directed to the most productive areas for economic development by harmonizing the choices of stock demand and supply.

Undoubtedly, the main institutions in the financial system are banks. As a result of innovations in information and communication technologies, in modern times, commercial banks are further enriching the financial system of banking services by developing traditional lending and deposit collection services.

Regardless of the level of economic development of the country, the country's banking system is of fundamental importance in ensuring comprehensive and dynamic development.

The interest-free financial system has been formed over a period of about 50 years and is developing rapidly as a model. According to a recent study by the International Monetary Fund (IMF), interest in interest-free financial institutions operating on the basis of Islamic rules is growing rapidly.

There are certain obstacles to the introduction and rapid development of an interest-free financial system in the rapidly developing traditional banking system in

Azerbaijan. There are broad prospects for the development of this system in Azerbaijan.These perspectives need to be considered and explored.

It is important to take the next major steps to develop an interest-free financial system in our country. First of all, in order to ensure the functionality of the interest-free banking system, the basic principles must be clarified, the realities of our society must be taken into account and the delivery mechanisms must be established.

The Central Bank of the Republic of Azerbaijan could make a positive contribution to the development of research, policy papers, financing and implementation of such projects across the country among economic and social organizations and consideration of strategic articles. The development of the executive document regulating this system by the Central Bank of the Republic of Azerbaijan and its submission to state bodies will ensure the formation of an interest-free financial system.In an interest-free financial system, as in traditional banks, a high level of customer service must be provided. After that, the "Pilot Tools" should be analyzed and tested.

Given that both citizens and banks in Azerbaijan have practical skills and experience with traditional partial payments, I think that the application of Murabaha and Lease financing methods would be particularly appropriate for the Azerbaijani market.

There is currently a customer segment of Islamic banking in Azerbaijan, primarily due to the following factors: The majority of the population of Azerbaijan is Muslim; There are many investment-oriented areas in Azerbaijan, which is why there are great opportunities for the development of Islamic banking in Azerbaijan.

In conclusion, it should be noted that all the consequences of such a step should be carefully considered before making a decision to stimulate the development of Islamic financial institutions in Azerbaijan. Thus, it should be borne in mind that the emergence of Islamic financial services may lead to an influx of consumers from ordinary financial institutions to Islamic institutions, rather than to attract consumers who have not previously used financial services to the financial sector.

According to article of the Law on Banks of the Republic of Azerbaijan, a bank cannot engage in trade. But the philosophy of Islamic banking is that the bank shares risks and benefits with its customers. But on the other hand, there is leasing. Banks can deal with this. Leasing is also based on trade. Any movable or immovable property is purchased by the bank and then transferred to the customer under a leasing agreement. For example, the International Bank of Azerbaijan offers six products in the context of Islamic banking. These products are not prohibited by law, but are regulated within traditional banking.

Azerbaijan is still entering the first stage of establishing Islamic financial institutions. Time will tell how successful the development will be in the future. At the same time, we believe that there is no need to speed up this process. In other words, the establishment of Islamic financial institutions in Azerbaijan is possible only if the demand for such financial services by economic agents increases significantly.

In my opinion, these are the obstacles and the disadvantages that may be specific to Azerbaijan:

- Existing Law of the Republic of Azerbaijan on Banks. According to this law, banks cannot engage in commercial activities, so it is impossible to apply the Murabaha method of financing and other operations, which is the most widely used in the practice of Islamic banking.
- Few people today put their beliefs into practice. This fact may limit the opportunities for a wide market for Islamic Banking.
- There are very few specialists in Islamic finance in Azerbaijan. There is a serious shortage of staff in this area. Islamic Finance and Banking are almost not taught in universities.

As for me, the main measures for the application and development of this field in Azerbaijan are as follows:

- A separate law on Islamic Banks should be adopted.
- The experience of the countries where the Islamic Financial System is applied should be studied and the most appropriate model for Azerbaijan should be selected, taking into account its specifics. For this purpose, a special group of specialists should be established within the Central Bank of Azerbaijan.
- Islamic Finance classes should be included in the university curriculum and separate Islamic Finance specialties should be created.
- There should be tax breaks for Islamic Banks for start-up years.
- Special Accounting Directives should be developed for Islamic Banks.
- There should be a large-scale public awareness campaign on the Islamic Financial System.

Finally, I would like to note that if we take into account the fact that the majority of our country now worships Islam, we can see that this issue will become even more relevant. Because a number of people who apply for a loan to the bank, as it is mentioned in our religion, it is forbidden to give loans with interest, and some refuse to get these loans because they have difficulty in obtaining high interest rates. For these reasons, in the near future, some other banks in the country will apply for loans through Islamic Banking.

CONCLUSIONS AND RECOMMENDATIONS

The Islamic Financial System is growing at an unprecedented rate of 15-20% despite the global financial crisis. Today, more than 500 financial institutions operate on Islamic principles, and all assets governed by Islamic finance have exceeded $ 1 trillion globally. Some economists attribute the dynamic growth rate of the Islamic Financial System to the inflow of cash to Arab countries as a result of high oil prices.(Əfəndiyev S., 2013)I think this idea is only partially true and not complete.

Dynamic development of the Islamic Financial System is largely due to the growing number of religious Muslims who are unable or unwilling to use the services of traditional banks. It is this factor and the resilience of Islamic financial institutions to the crisis that has accelerated the trend of traditional banks to establish branches and divisions operating in accordance with the principles of Sharia.(Əfəndiyev S., 2013)This in itself played the role of a global propaganda for Islamic Finance. As the specifics of the activities of Islamic banks isolate them as much as possible from the traditional financial system, these institutions were not so much affected by the crisis. Therefore, the Islamic Financial System is already a global trend, and it would not be right to avoid this globalization. However, along with all this, there are big barriers to the globalization of the Islamic Financial System.

The biggest problem facing the Islamic Financial System on a global scale is the legislation of the states. Currently, only the banking systems of Iran and Sudan are based on full Islamic rules. Although Arab states allow traditional banks to operate in their territories, the local population uses only the services of Islamic banks. This is due to the fact that the population of these nations is more religious than the peoples of other Islamic countries. These countries have adopted a separate law on Islamic banking. In countries where there is no legislation on Islamic banking, the activities of these financial institutions face major problems. With this in mind, states interested in this type of banking are not only enacting laws that allow these institutions to operate, but also making certain changes in tax legislation to encourage them.

It is known that under the current tax legislation in most countries, interest paid on deposits and other borrowings is deductible as interest expense and is not taxable (tax deductible). However, the amounts paid by Islamic banks for deposits accepted on investment accounts are also taxed, as they cannot borrow at interest. Thus, traditional banks can take advantage of leverage, and therefore become more profitable. However, in order to reduce the tax burden of Islamic banks in the UK, the funds raised on investment accounts in the tax legislation are already on the way to tax exemption as interest paid on traditional bank deposits. This will increase the profits of Islamic banks. This change will also apply to Sukuk, which is considered an Islamic bond, which in turn will further stimulate and expand the issuance of Sukuk in the UK. Turkey intends to take similar steps, and this process has already begun.

Another barrier facing the Islamic Financial System is related to human capital. In general, there are fewer professionals with the knowledge and skills in Islamic Finance globally than in traditional finance. To overcome this shortcoming, universities and institutes offering professional degrees have recently established academic degree programs in Islamic Finance / Banking / Insurance and international qualifications.

Sharia convergence is another major barrier to the expansion of the Islamic Financial System. Unified international standards for Islamic Banking have not yet been established. Although there are organizations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) that set accounting and auditing standards and capital adequacy directives for Islamic Financial Institutions, these standards are still mandatory for all Islamic Financial Institutions. does not have character. Because different religions have different views on different financial instruments (methods of financing). This, of course, hinders the emergence of uniform standards. Fiqh diversity is particularly pronounced between Malaysia and the Arab world.

Bai Al Dayn (sale of debt to a third party) and Bai Al Inah, which are considered halal for Malaysia, are considered haraam in Arab countries. In Malaysia, debt-based sukuk (Islamic bonds), which represent debt, are easily traded on the secondary market. However, the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) in its relevant standard prohibits the re-trading of debt-based sukuk in the stock market. According to this standard, only equity-based sukuk can be traded on the secondary market. Another big difference is that Islamic banks in Malaysia pay for current accounts under the guise of gifts. However, in the Arab world, it is considered haraam. Because current accounts (demand deposits) represent debt, and as the Prophet Muhammad said, every increase in debt is a benefit. Therefore, it is possible to pay only on the principle of distribution of profits and losses on investment accounts. In Malaysia, sharia scholars consider it halal because no fixed interest rate is offered in advance and no additional payment is guaranteed by the bank.

However, the difference is observed not only between the Arab states and Malaysia, but also within the Arab states themselves. A financial instrument that is considered haraam for one scholar is halal for another. There are different opinions from different scholars, from the approach to the distribution of profits and losses to the controversial Tawarruq instrument. Insufficient knowledge of economics and finance of scientists also plays a decisive role in this issue. However, the Central Bank of Pakistan has taken an interesting and important step in this area by organizing financial trainings for theologians. Similar steps are expected from other countries.

In addition to standards, legislation, and human capital issues, the lack of alternatives and equivalents to a number of traditional financial instruments and products in the Islamic Financial System could significantly limit the current growth and diversification potential of Islamic Finance in the strategic plan or over the next decade. This is likely to accelerate, especially if the world economy and financial markets recover from the boom in the near future. However, there are no optimistic forecasts that the world economy and financial markets will reach this level in the near future. Namely, the lack of alternative financial products we are talking about still creates problems for the activities of Islamic financial institutions in the field of risk and liquidity management. Because the use of financial derivatives, as well as the storage of free cash in government securities is prohibited in the Islamic Financial System. In order to ensure liquidity, some work has been done to introduce alternative Islamic Sukuk to government securities and is still ongoing.

Islamic banks have also been criticized for having almost no deposit insurance system. Malaysia, Turkey and Jordan have done some work in this area. In Malaysia, they have even set up an investment deposit insurance fund. But I think it would be more appropriate to insure only current accounts (demand deposits). Because these deposits represent debt, Islam also commands the absolute repayment of debt. I do not consider it acceptable to create an insurance mechanism against the risk of investment deposits and even the complete loss of investment. It would be more expedient to direct the efforts and resources spent on the establishment of an insurance mechanism on investment accounts to expand the Bank's activities. This is also the case in Jordan. Demand deposits are insured here, but investment account holders act as shareholders, not secured creditors, in the event of bank bankruptcy.

In conclusion, I would like to note that ways must be found to overcome the barriers facing the Islamic Financial System and every possible measure must be taken. However, these methods should not contradict the Shari'ah, such as offering only Islamized financial instruments in status, according to the fatwas of several scholars, in order to create an Islamic alternative to each of the financial instruments available in the traditional financial system, at any cost, at the expense of attracting non-Muslims. This could have dire consequences, first and foremost, for the future of Muslims, but also for the Islamic Financial System, with the loss of Muslims who refuse to use financial instruments that violate Sharia law.

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