Islamic finance as an alternative solution for companies in a post-crisis context:

An exploratory study among Tunisian or Algerian SME managers or anywhere in the world

EL JABRI Hamza, NASSIMI Abdelhakim, SAJID Anis

Abstract— in a context of post-crisis, the present financial system (capitalism) seeks to highlight its capacity for adaptation and integration of other financial systems that, until the 2000s, were sidelined. This sudden change brings us back to the question about the real reason for the change towards alternative models such as the Islamic finance. The latter was seen as a solution for better risk sharing and integration of a large part of the population in the banking system that refused to be part of conventional finance.

Until now, Islamic finance was focusing on replacing conventional products (mortgages and personal loans); described by some authors as "the lowest level" of the Islamic finance. SMEs must be at the heart of reflection, except that the operating financial means of exploitation still a problem. How Moroccan SMEs can meet its need for working capital in the absence of the overdraft facility, commercial paper discount and factoring? How can we study the behavior of institutional consumers (SMEs and their leaders) with the imminent arrival of Islamic bankers?

Keywords :

Islamic finance , conventional finance, choice of financing methods, financial system crisis, Moroccan SMEs, alternative products, financing working capital and investment and institutional consumer behavior.

1 INTRODUCTION

Nowadays, many countries are affected by slow economic growth alongside unproductive manufacturing and industrial sectors. A primary clarification lies in their unsupportive budgetary sector – low speculation, shallow and delicate capital markets, and banks concentrated on short term credits to couple of partnerships that have marketable collateral. Furthermore, a significant number of these nations are highly indebted and confront intermittent debt crises. The traditional financial system has not been good to them. The developed nations have been suffering from repeated monetary problems. Minsky (1986) confirmed that traditional finance was characteristically not stable in the developed nations. Times of success exchanged with times of sorrow and enormous joblessness (Siegfried, 1906) and unavoidable horrible cycles of intermittent debt crises that turn the economy into a recession and take away a significant part of the income gains gotten before the crisis. Critical wealth is redistributed to account holders who have defaulted on their loans. Furthermore, it is inflationary and discriminatory. Conspicuous government officials have been condemning of regular finance. Eminent business analysts amid the nineteenth and twentieth centuries, seeing financial crises happening amid their lifetime, proposed changes that set up 100% reserve commercial banking and a banking system for investment that distributes ventures on a pass through premise. A few changes called for annulling interest based credit and its trade for equity based venture. 100% deposit reserve banking was carefully depicted in the Chicago Reform Plan of 1933 (Phillips, 1994). But, financial establishments see partial reserve banking and leveraging as vital variables for their productivity and are against such changes. The essential standards of monetary stability supported by most of authors happen to be like those of Islamic back. Islamic finance gets its statutes from the Quran and Sunnah. Normally, Islamic back has two columns: (I) a 100% system of reserve banking and equity based venture banking, and (ii) denial of interest and debts bearing interest. Therefore, the main distinction between the suggestions of these authors and Islamic finance is that all interest carrying debt is restricted in Islam. In the Islamic framework, credit assumes an insignificant part; there are no borrowers or loan specialists; borrowers and creditors don't have conflicts. There exist only equity holders. There is no formation of cash out of nowhere or by means of the credit multiplier. Cash infusion does not duplicate through the system of banking, since banks don't lend deposits. Banks made for investment can't cause monetary crisis as they invest money from their clients their on a daily basis which minimizes systematic risks. Therefore, Islamic finance is inalienably steady. Experts in the job Various, including Fisher (1936), Simons (1948) and Allais (1999), have supported banking systems with qualities that are like the Islamic monetary system and created in the "Chicago Plan" as the sole stable framework helpful for maintained development and full employment.

2 The Structure of Islamic Banking

Islamic finance depends on the Quran and Sunnah. It entirely restricts interest (riba), good or bad. No entity on the economy, whether individual, venture, state, bank or national bank, is permitted to contract debts based on interest. Lending with free interest, called qard-hassan, is allowed. But, since this type of loaning has no monetary reward for financial specialists, it can be thought to be immaterial. Hence, contrasting to traditional finance, credit based on interest assumes no part in Islamic finance. Since credit is relatively absent in Islamic finance, there is no credit extension or withdrawal, no settling or focusing of loan fees by the state, and no contention amongst borrowers and banks. Islamic finance can be characterized as a two-level financial system: a reserve depository of 100% and supervision banking system for residential and worldwide installments; and a positive and negative sharing venture banking system that spots genuine investment funds (household or remote) specifically in private or open tasks (local or foreign) or by implication through money markets for local or outside investors. The main banking element keeps cash stores (e.g. money, gold, silver, and so forth.) and settles installments by means of clearing, withdrawals and different types of installment. Banks can't break the deposit contract by loaning these deposits. Fees are charged by banks for keeping deposits and settling installments. The installment of expenses will actuate investors to hold financial and genuine resources as opposed to keeping inert deposits. The venture banking element has no fiscal part and no effect on cash totals. It gets household and foreign reserve funds, which it puts resources into productive activities or in liquidities for example, shared finances or stocks. Contributors get transferable or attractive offers that empower them to exchange their venture if decided perform it on secondary markets. The ostensible estimation of value shares isn't ensured. Investors share in benefits and misfortunes and in addition in capital increases and misfortunes. Islamic capital markets just intermediary between savings units and investment units (local and foreign) in a way that blocks interest. They don't issue cash or debt. They incorporate investment banking, securities exchanges, common assets, trade exchanged assets, and different types of intermediary risk sharing establishments. Credit based on interest as cash against cash in addition to enthusiasm for cash, or wheat against wheat in addition to enthusiasm for wheat can't exist in Islamic finance. In customary finance, credit assumes a noteworthy part in trade, creation and speculation; it is self-liquidating. For example, cotton is financed through loans, from the development of land to edit accumulation, exportation, fabricating, and its deal to clothiers, even to buyers who wish to buy the completed material using a loan. The receipts toward the finish of each process pay the bank loan and interest contracted toward the start of the process. Subsequently, agriculturists pay for the bank loan and interest they contracted before seeding from the returns of cotton deals. The exporter issues a bill to the foreign producer, which he rediscounts with a local or foreign bank and thusly utilizes the returns to pay the cotton agriculturists. The producer settles the bill when the cotton material is conveyed to the clothier. The clothier gets cash from the bank to purchase cotton material from the maker. The proprietor of the dress shop purchases cotton material with the help of a loan that he uses to pay the clothier. In Islamic finance, this sort of self-liquidating credit chain can't exist. No cash is traded against cash in addition to interest. It is supplanted by the Islamic financing methods of bai salam, istisna, murabaha, mudaraba, or hazard sharing financing. Cash in advance exist at the beginning of the process and conveyance of an item toward the finish of the process. In bai salam, agriculturists offer the future cotton crop against quick installment and conveyance upon cotton collecting. In the plan of risk sharing, the bank and the agriculturists are accomplices in the venture of risk sharing. Ranchers claim land and work and the bank possesses the working capital. Ranchers and the bank share in the benefits and misfortunes of cotton tasks from seeding to the exportation of the cotton. Ranchers don't owe the banks.

A noteworthy property of Islamic finance is that it is firmly connected to the genuine economy; it works as per Say's law of business sectors, specifically, supply makes its request. Demand is produced by wages to the economy and not from imaginary credit. Investment can't surpass saving and there is no price inflation. There is no expansion in credit as in the fragmentary depository system. The fundamental mainstays of Islamic finance are not a novelty. Simons (1948), one of the creators of the Chicago Plan (1933), recommended that nothing would be coursed except for 'unadulterated resources' and 'unadulterated cash', instead of 'near funds' and different problematic types of short run instruments that were in charge of financial crises. Simons, an advocate of the gold standard, supported non-interest bearing debt and contradicted the issuance of short-term debt for financing open or corporate commitments. He likewise restricted the payment of interest on cash, request deposits and reserve funds. Simons imagined private banks that would assume a significantly extraordinary part in the public eye than they do at present. Instead of controlling the cash supply through the issuance of debt, Simons' banks would be more much the same as 'investment trusts' than any other thing.

3 Monetary policy and the role of national banks in the Islamic financial system

Money related policy in an Islamic economy happens in a structure in which every single customary instrument typically accessible in a conventional modern economy are at then disposal of the fiscal specialists, except for the rate of discount and other policy instruments that include rate of interest (purchasing and offering of interest bearing securities). Every other instrument, in particular open market activities (where value shares instead of securities are exchanged) and acknowledge approaches, can be as compelling in an Islamic system as they are in the ordinary Western system. The experts in an Islamic system can use reserve necessities and benefit sharing proportions to accomplish changes in the supplies of cash and credit, and fiscal approach could be considered to work through a more straightforward path in the Islamic financial system. The national bank, by purchasing and offering risk sharing securities, straightforwardly influences the financial arrangement of the private area – family units and firms – and in indirectly through influencing bank holdings in capital markets that thusly influence genuine monetary action. The choices of families and firms affect the genuine rate of return in the economy, which again influences monetary movement; while financial signs to capital markets through national bank strategies influence the accessibility of genuine assets for investment. We ought to underscore that the financial instruments that can be utilized as a part of an Islamic economy are not quite the same as those in the customary system. Open market tasks can be utilized to purchase and offer papers of an alternate sort since interest bearing financial debts, for example, securities, are restricted in the Islamic system. The State can utilize various different roads to finance consumptions that surpass charge incomes, bringing about securities that can be purchased and sold by the national bank to direct money related activities. For instance, the State can finance all essential capital use through private-open projects as said beneath. So also, various ventures could be consolidated and value shares sold in the total number of activities; or, again what is basically a similar thing, the joined undertakings could be the advantages that back a security that produces a settled salary with the bondholders allowed access to the fundamental resources. Indeed, even under conditions where there was no immediate income from an infrastructural venture, the administration could fall back on private segment financing with profits paid by the legislature at (or above or beneath) the rate of return in the genuine area. While some contend that cash and value can't be made out of 'thin air' in Islam, others trust that this strategy has some legitimacy on the off chance that it is being done to profit specific individuals from the network. The last contend that there is nothing in the Quran or in the Sunnah that suggests or forbids the state from making cash (obviously there was no paper cash at the season of the Prophet). Truly, the state can't issue interest bearing securities and paper cash that procures interest, yet in the event that the state prints cash so as to encourage business exchanges and improve flourishing for the advantage of the network in light of the fact that the economy's yield is beneath its potential, at that point it could be allowable. This can be operationally characterized as when there is unused beneficial limit in the economy. Likewise, the national bank can print cash to suit anticipated that increments would gainful limit. This would imply that there is precise estimation of full work yield and expected future development of the economy. Similarly, the state gets the ordinary preferred standpoint of seignior age, yet again if this is utilized for the fair advantage of all individuals from society, not rulers and special classes, at that point for what reason should the national bank be banished from issuing paper cash? It is in light of a legitimate concern for the network. So also, the national bank ought to be allowed to go about as a loan specialist of final resort as long as it doesn't charge interest for request to support monetary development. It could charge a financially stable investment bank needing liquidity a rate predictable with the rate of return in the genuine area of the economy ex post (along these lines a real genuine rate of return). Then again, the national bank could buy resources from the investment bank, which at last is much the same as going about as a loan specialist of final resort. A business banking system that depends on 100 for each penny reserve banking denies loaning and dispenses with the requirement for reserves and changes in the reserve prerequisite of such business banks as an approach instrument. Yet, the other method of banking, to be specific investment banking, bears imperative arrangement alternatives. Review that these banks channel financial specialist reserves into various investment ventures (by hazard, development, lease/profit, and so on.) and issue the speculator with value offers or securities (supported by the investments) that are exchanged the market. The national bank can influence the task of these banks in two primary ways. Most importantly, the national bank can purchase and offer the securities that they issue specifically to financial specialists and those that they issue for them by contributing their own particular capital. On account of security buys, the national bank infuses money under the control of financial specialists and the banks, bringing about speculators and banks having trade to contribute out new tasks. Note the intensity of this instrument and contrast it with open market activities in the traditional banking system. Here, the national bank puts money straightforwardly under the control of financial specialists who choose their investments, while in the traditional system the money is put under the control of brokers who could possibly loan. Open market task is a substantially more powerful arrangement instrument in Islamic banking than it is under the customary system. Second, the national bank can change the reserve prerequisite of investment (shared store exercises) banks. Investment banks basically put the capital of financial specialists in activities of various sorts in a go through mode and put their investors' capital in these or different tasks. The national bank can require reserves of these investment banks, not due to their presentation to hazard but rather to impact their capacity to channel stores into ventures and thusly lessen the arrival to financial specialists. By requiring reserves, these banks can contribute less of the speculators' benefits (keeping a section as reserves) and in this way they lessen the appeal of contributing (bring down rate of return, as a part is kept as reserves and does not procure any arrival). Notwithstanding open market tasks and reserve necessities for the national bank, we should take note of that the national bank could likewise utilize its direction warnings to shape showcase desires and in this manner influence the investment/sparing choice, which thusly will influence monetary action. The effect and adequacy of national bank direction, including expansion targets, will be straightforwardly corresponding to its validity. Notwithstanding the execution of fiscal approach, national banks in an Islamic system could lead the pack in advancing financial foundations and instruments that encourage the proficient assembly of reserve funds and the assignment of assets predictable with the monetary advancement .

Targets of the Islamic economy. The national bank, specifically, must start and cultivate the advancement of essential, optional and currency markets. Minor selection of Islamic guidelines of finance won't really make the driving force for financial and monetary improvement where the shallowness of financial markets and the absence of alluring financial instruments have made obstructions to the sparing investment nexus and to the procedure of financial intermediation. The national bank in the Islamic system can be required to play out the standard direction, supervision and control elements of national banks as in the regular financial system. A further open door for upgrade of the control of the banking system is accessible to the national bank through its capacity to buy value offers of the banks as well as of other financial establishments. The need of the position of authority of the national bank in starting and developing essential, optional and currency markets has just been talked about. Through the execution of these capacities and its loan specialist of-final resort part, the national bank can apply more noteworthy impact in the financial system. The open door for the national bank to purchase and offer securities in the financial markets may empower it to impact financial asset designation further if that ends up fundamental or alluring.

4 THEORITICAL STABILITY OF ISLAMIC STOCK MARKETS

Theoretically, an Islamic stock market should operate according to the precepts of the Quran and Sunnah. In a similar manner to the theoretical stability of banks that operate on the basis of Islamic precepts, Islamic stock markets are free from two major sources of instability, namely interest rates and un-backed money creation. High degrees of instability make a stock market inefficient, requiring large resources for trading and hedging risk, and dissuade savers from participation in the markets. Stock market crashes following stock market booms have often ruined household savings and caused economic disorders. A high degree of stability will encourage savers and enable stock markets to achieve maximum efficiency in financial intermediation, reduce trading costs and increase levels of participation.

In the absence of speculation arising from dysfunctional credit (debt) markets, equity prices would tend to show less volatility. Essentially dividends and real savings would drive demand for equity shares. Such demand cannot be fuelled by fictitious credit. The supply would be influenced by initial public offerings. Hence, both the demand for and supply of equity shares is influenced by stable variables in the absence of interest rates and debt, and equity prices would tend to display a stationary pattern. Assuming that economic and financial relations in society are governed by the institutions (rules of behavior) prescribed by Islam, one would expect that the likelihood of speculative bubbles emerging would be minimal. Asset prices in Islamic finance would feature low correlation with the market portfolio and would be more influenced by idiosyncratic risks. Two elements explain the absence of systemic risk (Askari et al., 2010). First, the Sharpe ratio in the capital asset pricing model (CAPM) is very low.12 Expected returns are compared to the average rate of return in the economy. Such a rate of return would display a stable pattern over time and would not fluctuate in the same fashion as interest rates. Interest rates on risk-free bonds cannot influence the Sharpe ratio in Islamic finance. Consequently, the equity premium would be small, since households do not hold risk-free assets. The deviation between the expected return and the market return would be minor and result from non-systemic factors, such as the scale of the firm, the efficiency of its labor force or its entrepreneurship. Second, the magnitude of beta coefficient in the CAPM would be small in Islamic finance. The performance of one firm would be influenced by its competitiveness, cost-efficiency, promotional efforts and investment plans. In the absence of common systemic risks, the correlation between a firm's return and the market portfolio would be very low.

In Islamic finance the pool of real savings would determine asset demand, not credit. The supply of equity shares would be determined by real investment plans. Hence, demand for and supply of shares would tend to be stable. The rate of return would essentially comprise dividends, with very small changes in equity prices. Equity share prices would be stationary variables, with no persistent upward or downward trend.

4 Conclusion

Conventional finance has been subject to recurrent financial crises that cause economic dislocations. It is redistributive, redistributing wealth to borrowers at the expense of creditors. It requires recurring government bailouts. Numerous developing countries have been unable to promote risk-sharing equity markets capable of mobilizing domestic and foreign financial resources to encourage development while many advanced countries continue to be plagued by recurring financial crises. Throughout time, a number of politicians and renowned economists have denounced the shortfalls of conventional finance. They advocated a financial system that operates according to principles that happen to broadly coincide with the principles of Islamic finance. Islamic finance has (i) a two-tier banking system – a 100% reserve deposit system and risk-sharing equity banking akin to a mutual fund – and (ii) prohibits interest and interest-based (debt) transactions. Islamic finance promotes risk sharing and an efficient risk-sharing vehicle would be a stock market that operates along Islamic principles that prohibit interest and interest based leverage. The advantages of an Islamic stock market are its ability to preclude the crashes of conventional stock markets, to attract more participation in stocks and support sustained growth. Governments can finance some public projects through equities (instead of debt), using asset-linked securities. The development of a stock market has long been a part of proposals for monetary reform that have sought to reduce the money creation power of banks and leveraging. Nonetheless, there is considerable work in terms of institution building that needs to be done. Regulations have to be all-encompassing in order to limit any damage caused by instability. Developing an active and efficient stock market can promote international as well as domestic risk sharing that renders the economy and its financial system more resilient to shocks.

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